S. Hrg. 98-130

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM RECOMMENDATIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY AND
INCOME MAINTENANCE PROGRAMS

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

FEBRUARY 15, 16, 22, 23 AND 24, 1983

PART 2 OF 3
(FEBRUARY 22 AND 23, 1983)

Printed for the use of the Committee on Finance

20-000 O

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1983

S361-36

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NATIONAL COMMISSION ON SOCIAL SECURITY REFORM RECOMMENDATIONS

TUESDAY, FEBRUARY 22, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 10:03 a.m. in room 2221, Dirksen Senate Office Building, Hon. Robert Dole (chairman) presiding.

Present: Senators Dole, Chafee, Heinz, Wallop, Durenberger, Armstrong, Symms, Grassley, Pryor, Mitchell, Bradley, Moynihan, and Long.

[The opening statement of Senator Dole follows:]

OPENING STATEMENT OF SENATOR BOB DOLE

Good morning. Today we continue our hearings on the recommendations of the National Commission on Social Security Reform. Last week we heard from individual members of the National Commission and from the Commissioner of Social Security. This week we will have three full days of hearings to receive testimony from public witnesses, Members of Congress, and the Director of the Office of Personnel Management. A wide range of organizations will be heard that represent opposing views on each of the major provisions recommended by the National Commission.

Public hearings are an important part of the legislative process. And, the fact that the Finance Committee is devoting two weeks to these hearings suggests the importance we place on social security and the recommendations of the National Commission. Certainly we will hear a great deal of criticism of individual provisions in the next three days. This is to be expected, with such a broad proposal dealing with such a vital issue. A number of the proposals are clearly in need of refinement—such as the proposal to tax benefits—and the Commission members recognize that fact. We welcome assistance in that regard.

However, I hope that every witness—and each of my colleagues—will remember that, as a compromise package, the Commission recommendations necessarily require concessions from all of us. Criticism that is not accompanied by a concrete alternative—one that is capable of gaining bi-partisan support—does us very little good. The social security trust funds have reached the point that continued inaction will be fatal to the system. Legislative action will only be possible with bi-partisan concensus.

At this point, I am optimistic about the prospects for early passage of the consensus package. The House has already completed hearings and, today, the social Security Subcommittee is beginning to mark up legislation. Chairman Rostenkowski and I have agreed to work toward final passage of a bill before the Easter recess. So far, everything is going as scheduled.

With that in mind, I welcome today's witnesses. We will begin with testimony from three groups that have a keen interest in social security reform—the American Association of Retired People, the National Council of Senior Citizens, and the National Council on the Aging. I look foward to hearing your testimony.

The CHAIRMAN. Good morning. Today we begin three days of hearings on social security. We hope to conclude the hearings this week. Public hearings are important, and we hope that everyone who feels the need to testify will have that opportunity. However, we are also hoping to avoid repetitious testimony and have been negotiating with a number of witnesses to encourage them to consolidate their testimony.

It seems to me that there is a general concensus forming on the social security package, although obviously, not everyone is in agreement. I hope that some of the witnesses today who oppose the compromise will have better ideas—not just criticism. We must have some indication of what the alternatives are.

We are pleased to welcome this morning Mr. Brickfield, executive director, American Association of Retired People; Joseph Rourke, assistant to the executive director, National Council of Senior Citizens; and Jack Ossofsky, executive director, the National Council on the Aging, as our first witnesses.

Cy, would you like to begin?

STATEMENT OF CYRIL F. BRICKFIELD, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF RETIRED PERSONS, WASHINGTON, D.C.

Mr. **Brickfield**. Yes, thank you, Senator.

Mr. Chairman and members of the committee, my name is Cyril F. Brickfield, and I am the executive director of the American Association of Retired Persons [AARP]. Your committee has always had to deal with our Nation's priorities, and you have often confronted hard choices about the social security system. Rarely have you dealt with that program under more difficult circumstances. Its financial condition demands prompt action. There is an effort underway to convince everyone that the recommendations of the distinguished Commission on Social Security Reform must be accepted with no changes.

Both you and we, of course, know that is not true. Even though the Commission's report generated a rare concensus among key political leaders, agreement on a flawed prescription, Senators, can produce damaging results. We believe it has some dramatic flaws.

The committee recommended revenue increases are inadequate—$165 billion—to assure of the system's short-term solvency. It relies too heavily on benefit cuts and increased taxes on workers. It would hasten the imminent crisis in medicare by continued interfund borrowing. It would impede the economic recovery essential to deal with both the short- and long-term problem.

We are particularly concerned about three key recommendations. Those concerns flow from our keen awareness that social security is a family program. All beneficiaries are the parents and grandparents of the working taxpayers. They want for themselves no unfair or unearned portion of the Nation's economic resources. Nor do they want to become an increasing burden on their children and grandchildren.

We properly represent our 14 million members only when we recognize the community of their concern. They care about their peers. They care about their children. They care about their Nation and its economic health. That's why we believe changes should be made in three key Commission proposals.

They are the recommended $40 billion cut in COLA benefits over the next 7 years, the recommended $58 billion increase in payroll taxes, and the recommended taxation of benefits of those with incomes above a certain level.

The proposed COLA cut may sound innocuous. It has been reported widely that it would only mean a one-time benefit loss, that it would reduce benefits by $40 billion over 7 years, however, illustrates its compounding effect. It would most hurt those least able to afford the loss. Many of them are widows. Some 3 million widows who depend on the system for 85 to 95 percent of their income.

The proposed payroll tax increase would be an unfair burden on workers by asking them to pay more—as Congress did in 1977—while telling them that they will get less in retirement. It would also be unwise economic policy, dampening changes for economic recovery and aggravating unemployment.

The proposal to tax half the benefits of those with incomes above a certain level would make a fundamental change in the system itself, introducing a back door means test. It would likely erode confidence and support among younger workers; particularly, when they come to understand that as much as 10 to 25 percent of their expected benefits would be taxed away.

Instead of raising payroll taxes, instead of cutting COLA's and taxing benefits, we believe the needed revenue should be raised temporarily through more broadly based tax sources. If Congress can raise over $20 billion from a nickle-a-gallon gas tax to rebuild roads and bridges, it can use a similar approach for social security.

Our submission for your committee record provides a much more detailed analysis of these issues, and presents our constructive alternatives.

Every opinion poll we have seen indicates that those alternatives are supported, not only by our members, but by Americans of all ages.

We look forward to working with you, members of the committee, as you develop legislation that is responsible, effective and fair for everyone involved.

I thank you very much, Mr. Chairman.

[The prepared statement of Mr. Brickfield follows:]

STATEMENT of the

AMERICAN ASSOCIATION OF RETIRED PERSONS

INTRODUCTION

The social security system is facing the most serious challenge it has ever faced in its 48 year history. Anxiety among beneficiaries over the system's short-term solvency has intensified. Public confidence -- particularly that of younger workers -- in the system's future viability has been dangerously eroded.

Congress now has the responsibility for developing a solution to social security's short-term dilemma -- a solution that is fair and that will last at least the decade. At the same time, Congress must address the system's long-term deficit so that younger worker support for the program can be restored.

As an organization representing 14 million beneficiaries, we share in that responsibility and we realize that the well-being of the 36 million beneficiaries of social security critically depends upon the continued willingness of 116 million workers to finance the program through their payroll taxes.

It is with this perspective that our Association offers its criticisms of and alternatives to the package of recommendations made by the National Commission on Social Security Reform. We are advocates not just for older Americans, but also for the workers who support the system and who have reasonable expectations of benefiting from it when they reach retirement age.

From this perspective, AARP finds the Commission's package to be an inadequate as well as an inappropriate response to the system's short- and long-term problems. First, the Commission's package falls short of solving social security's short- and long-term financing problem. In the short term, the package raises only $165 billion -- substantially short of the $200 billion which is likely to be needed to guarantee the system's solvency. Similarly for the long term, the package leaves unresolved one-third of the 75-year deficit, estimated at 1.8% of taxable payroll. Unfortunately the one Commission recommendation that contributes the most to lessening the long-term deficit -- taxation of benefits -- is irrational, sets a dangerous precedent, and will have its harshest impact not on current recipients, but on future recipients.

We recognize that a "compromise" solution to social security's difficulties is needed and that every compromise requires all groups to give up something. Unfortunately, the Commission's short-term package requires workers and beneficiaries to give up more than their fair share -- $124 billion out of the $165 billion in the package comes from benefit cuts and payroll tax increases. For the short term, there are far less onerous and less economically damaging options available. And for the long-term, rational reform that harnesses the system's ability to influence retirement decision holds more promise than the blatant means-testing of the program achieved by taxing benefits.

Three key elements of the package -- payroll tax increases, taxing benefit and cost-of-living adjustment cuts -- we find to be unnecessarily burdensome for current workers and for both current and future beneficiaries.

* The payroll tax increases in this package are not small; they are large, and they are on top of some of the steepest payroll tax increases in the program's history. With unemployment having reached its highest level since 1940 and with the risk of re-igniting inflation still with us, the last thing Congress should do is substantially and directly add to the cost of labor.

* The proposal to tax one-half of social security benefits must be scrutinized not just for its impact on current recipients, but for its impact on the future benefits of current workers. In the future, taxing benefits will reduce the benefits of nearly all recipients, except the relatively poor. It represents a means-testing of the program, a strong disincentive to save for retirement and, over the long-term, could seriously undermine the support for the system among moderate- and higher-paid workers who will lose 10-25% of their benefits under this proposal.

* The cost-of-living adjustment (COLA) cut recommended by the Commission is not a temporary, one-time delay -- it is a permanent cut. Congress must acknowledge that fact as well as the fact that the oldest and lowest-income segments of the elderly population will bear the brunt of any COLA cut.

In an attempt to provide a more complete solution for both short- and long-term problems, AARP is recommending to this Committee constructive alternatives that not only will provide the additional funds to close the system's financing gaps, but also are more fair and balanced in their treatment of workers and retirees.

PAYROLL TAX INCREASES

Over the 1983-89 period, the Commission is recommending an increase in payroll taxes of $40 billion for workers and their employers (providing a refundable income tax credit to the worker in 1984 only) and $18 billion for self-employed individuals by making the OASDI tax rates for these individuals equal to the combined employee-employer rate. (This would be accompanied by an income tax deduction as a business expense for one-half the combined rate.)

Impact: Under this proposal, for the average worker earning $19,500 in 1983, payroll taxes will be increased by approximately $263 (excluding a $62 income tax credit payable to this worker in 1984) over the 1983-90 period. (This calculation assumes average annual wage growth of 6.5% and excludes any tax increase that will occur solely as a result of such wage growth.) This $263 increase is on top of the $840 in increased payroll taxes this worker will be paying as a result of previously scheduled payroll tax increases. Thus, the total 1983-90 increase in payroll taxes for this average worker would be over $1,400, an increase of over 8.3% in payroll tax liability.

For the self-employed individual, this increased payroll tax levy is very substantial. Even considering the offsetting effect of the proposed income tax deduction, this proposal will mean a net tax increase of approximately $400-$700 per year (depending upon adjusted gross income levels) for the average self-employed person.

Analysis: Our Association believes raising payroll taxes is the worst source of additional revenue for social security. Our alternative is to raise revenue from non-payroll tax sources and earmark them on a temporary basis for social security. These proposals are described in detail in a later section of our statement.

Payroll tax increases represent bad economic policy, bad tax policy and are extremely burdensome for workers. They represent bad economic policy since such increases tend to add to inflation and unemployment and will make recovery from the current recession even more difficult. On the inflation side, payroll tax increases create upward pressure on prices as employers try to push their large increase in costs forward in the form of higher prices. On the unemployment side, payroll tax increases raise the cost of hiring and retaining workers -- particularly youth, minorities and semi-skilled workers for whom unemployment rates are now in the 20-50% range. Payroll tax increases will dampen employment levels, making unemployment an even more intractable problem and further reducing income to the social security trust funds.

In analyzing the impact of the 1977-82 payroll tax increases (which were smaller than the increases now under consideration), CBO estimated that by 1982, the 1977 tax hike would have depressed job levels by one-half million and would have added 0.5% to the inflation rate.

Raising payroll taxes in our opinion also represents bad tax policy, since it would greatly increase government's reliance on a relatively regressive form of taxation which bears down most heavily on low-income workers, particularly families. A recent SSA study concluded that over half (51%) of all family units now pay more in social security taxes than they do in income taxes (assuming that the worker bears both the employee and employer portion of the tax). For low-income family units with total incomes under $9,000, almost two-thirds (65%) pay more in social security taxes than income taxes.

Even if these payroll tax increases are partially offset by an income tax credit or income tax deduction (for the self-employed), the net effect will be to raise revenue derived from a regressive source while cutting revenue derived from a progressive source. We seriously question the advisability of providing any additional income tax cuts or preferences. In the wake of one of the largest income tax cuts in recent history and in the face of some of the largest budget deficits in history, we should be seeking to restore the income tax base, not erode it.

Raising payroll taxes at this time is also dangerous for the social security system and its beneficiaries since it could foster a split between the young and old. Payroll tax increases are highly visible on pay stubs and could increase younger workers' dissatisfaction with the system since such tax increases will substantially decrease workers' take home pay at a time that high unemployment is already reducing their real incomes.

TAXATION OF SOCIAL SECURITY BENEFITS

Under current regulations, social security benefits (as well as railroad retirement benefits) are excluded from gross income for federal income tax purposes. The Commission proposal would require that one-half of social security benefits be included in adjusted gross income for federal income tax purposes, if a taxpayer has an income (excluding social security) above $20,000 for an individual or $25,000 for a married couple. The revenue from this provision would be credited to the social security cash-benefit trust fund.

Over the 1983-89 period, this provision is supposed to raise $27 billion in revenue and is expected to add enough revenue to reduce the long-term deficit (estimated at 1.8% taxable payroll) by 0.6%.

Impact on Current Beneficiaries: If effective in tax year 1984 about 10-11% of social security recipients would be affected. Their extra tax liabilities and social security benefit losses would be as follows:

	Extra Tax Liability* (% Benefit Loss)	
Single AGI	$5,000 Social Security	$6,000 Social Security
$20,000	$644 (12.9%)	$774 (12.9%)
$25,000	730 (14.6%)	880 (14.6%)
$30,000	818 (16.4%)	988 (16.4%)

	Extra Tax Liability* (% Benefit Loss)	
Married AGI	$8,400 Social Security	$13,000 Social Security
$25,000	$ 942 (11.2%)	$1,517 (11.7%)
$30,000	1,059 (12.6%)	1,703 (13.1%)
$35,000	1,176 (14.0%)	1,935 (14.9%)
$40,000	1,386 (16.5%)	2,145 (16.5%)

* Assuming no itemized deductions

Income tax liabilities under many state laws may also increase proportionally.

Analysis: For current retirees and those approaching retirement, this proposal represents an abrupt reduction of 11-25% in social security income and an unfair change in the rules of the game. Even at income levels of $25,000 and above, such a precipitous loss in income can mean a severe disruption in retirement planning for many. Most social security recipients will have virtually no means to offset such a loss since they have very limited and usually no access to the labor market.

Additionally, in the future, the $20-25,000 thresholds could easily be lowered (as has already been done with unemployment compensation) thus subjecting lower and moderate income beneficiaries to the tax. Once the precedent of taxing benefits is set, the elderly will feel that no one's benefit is safe, especially if the Commission's proposals fail to meet the system's short-term financing needs. And, even if the thresholds remain the same, inflation will effectively reduce them. In fact, by 1990 using the inflation assumptions underlying the Commission's proposals, these thresholds would be reduced to $13,660 for an individual and $17,076 for a couple in today's dollar terms.

There are also serious technical problems with the current proposal. The most major is a notch problem affecting taxpayers whose AGIs just slightly exceed the thresholds. Taxpayers in this situation could find their tax liabilities 25-30% higher (36-58% for married couples) than taxpayers with income just below the thresholds. As illustrated in the example on the next page, a person with an AGI of $19,000 (just below the threshold) would have $567 more in income at his disposal than a person (with just $100 more in income) who has an AGI at the threshold of $20,000.

Person X over age 65 with $19,900 AGI under current law.

Tax liability: $ 2,668

Disposable income: $22,232

Person Y over age 65 with $20,000 AGI under current law.

Current tax liability: $ 2,691

Disposable income: $22,309

Tax liability including
½ of Social Security: $ 3,335

Disposable income: $21,665

(Assumes $5,000 of social security income, no itemized deductions and 1984 tax rates)

Person X with $19,900 AGI would have $567 more income at his disposal than Person Y with $20,000 AGI.

Correction of this notch problem by the tax-writing committees will mean that either beneficiaries with AGIs below the current thresholds (possibly as low as $14-15,000) would be affected in order to effect a more gradual phase-in or the expected revenue of $30 billion would be substantially reduced, perhaps even cut in half.

In addition, a substantial "marriage penalty" exists in the taxation of benefits proposal. Two single elderly taxpayers would be in a far more advantageous tax situation than a married couple with same income.

Impact on Younger Workers: Younger workers have even more at stake under the Commission proposal because in the future, virtually all Social Security recipients (except those who are relatively poor) will have 5-25% of their Social Security benefits recaptured via the income tax system. This will occur because under this plan the $20-25,000 thresholds are not indexed. This is why this proposal contributes so much to ameliorating the long-term term deficit. In fact, the proposal to tax one-half of social security benefits only for persons with AGIs above $20-25,000 generates the same amount of revenue over the long-term (0.6% of taxable payroll) as the same proposal without thresholds (See January 1983 Report of National Commission on Social Security Reform, Appendix K, page 50).

Under current tax law, aged taxpayers pay no income taxes until their AGIs (excluding social security) exceed $4,300 for an individual and $7,400 for a married couple. Within 25-30 years, the $4,300 "minimum" taxable threshold will meet the $20,000 threshold and the $7,400 "minimum" taxable threshold will meet the $25,000 threshold contained in the Commissions proposal. These estimates assume the short-term inflation rates underlying the Commission's package and the long-term (1990+) inflation rates contained in the II-B assumptions of the 1982 Social Security Trustees Report.

Therefore, in 25 to 30 years, the thresholds in the Commission's taxation of benefits proposal will be inoperative. The proposal will affect the future social security beneficiary population in almost the same manner as it would affect the current social security beneficiary population assuming there are no protective thresholds at all. The following table illustrates the impact on current beneficiaries of the Commission's proposal assuming no thresholds.

Simulated Impact on Current Beneficiaries (with no thresholds)

Single AGI	Extra Tax Liability* (% Benefit Loss) (assuming $5,000 social security)
$ 4,300	$297 (5.9%)
$10,000	395 (7.9%)
$15,000	515 (10.3%)

Married AGI	Extra Tax Liability* (% Benefit Loss) (assuming $8,400 social security)
$ 7,400	$483 (5.7%)
$15,000	654 (7.8%)
$20,000	756 (9.0%)

* Assuming no itemized deductions.

The Commission's proposal as currently drafted would affect 10-11% of current beneficiaries. However, in the future given erosion of the thresholds, at least half of the beneficiaries population would be affected and perhaps even more since retirees of the future are likely to enter retirement with more income from savings such as private pensions, IRAs and the like. In fact, a worker age 35 today who establishes an IRA this year and continues to pay into it at the maximum can expect to draw from that IRA alone an annual income of $20,000 when he or she retires.

It is ironic that those who save for their retirement will be penalized the most by the Commission's proposal. Taxing social security benefits thus discourages saving and encourages reliance on social security as the sole source of income. It also represents an income-testing of the program which is a fundamental change in the system and one that will turn it, in effect, into an overt welfare program. This outcome is contrary to Commission's own statement: "The National Commission considered, but rejected proposals to.... ....change it to a program under which benefits are conditioned on the showing of financial need." (Report of the National Commission on Social Security Reform, January 1983, p. 2-2).

It is often argued that social security should be taxed in the same manner as private pensions and government employee pensions. Social security, however, is structured differently from pension systems which usually provide annuity-type benefits awarded through a proportional benefit structure. In contrast, social security is social insurance with significant welfare/ social adequacy components such as its weighted benefit formula and the provision of "free" dependent benefits.

One cannot analyze this benefit taxation proposal in isolation of the heavily weighted social security benefit structure. Even the 1979 Social Security Advisory Council when it recommended taxing Social Security benefits suggested that it be coupled with the adoption of a revised two-bracket benefit formula that would treat higher-paid workers more fairly and give them more reasonable rates of return on their payroll tax contributions (see Report of the 1979 Advisory Counci of Social Security, p. 76). Already under the current schedule of payroll tax rates and using conservative estimates, as of the year 2000 a single male earning the taxable maximum retiring at age 65 will not receive his "money's worth" out of social security -- that is, the present value of his future benefits is less than the present value of the OASI taxes he and his employer will pay plus a reasonable rate of interest (see Memorandum to Members of the National Commission on Social Security Reform from its Executive Director Robert Myers, August 12, 1982). The same is true beginning in 2020 for single women earning at the maximum and retiring at age 65.

The proposal to tax social security benefits will lower rates of return for this high-earning group even further and make their already negative rates of return worse. If the Commission's proposal to tax benefits is enacted into law, the popular "myth" among younger workers that social security is a bad deal will be confirmed and for many, become reality. At some point, one can expect that increasing numbers of workers will begin to view social security as a bad buy and be less inclined to want to support the system. This could work to the particular detriment of future lower-income beneficiaries who will be heavily dependent on social security for minimum income support.

Given that this package also imposes large payroll tax increases on workers, the message to younger workers is: pay more now and get less when you retire. And, to increasing numbers of workers, this proposal says: don't plan to get out of the system what you put into it. This combination of policies is likely to cause a decline in younger workers' support for the program and that could precipitate an inter-generational conflict in the future.

CUTS IN COST-OF-LIVING ADJUSTMENTS

The Commission proposes $40 billion in savings from a six-month freeze in COLAs effective in 1983, followed by a permanent six-month delay in payment of the COLA for every year thereafter. In July 1983, unlike current law, no COLA will be paid; instead, in January 1984, a COLA will be paid reflecting the inflation occurring between the first quarter of 1982 and the first quarter of 1983. This means that beneficiaries will have to wait a full year until 1984 to be compensated for the inflation they experienced in 1982. The next COLA will be paid in January 1985, reflecting the inflation occurring between the third quarter of 1983 and the third quarter of 1984. This particular shift in the measuring period will have the effect of dropping six months of inflation out of the COLA calculation -- that is, the inflation occurring between the first and third quarters of 1983.

Impact on Beneficiaries: In 1983 alone, this six-month freeze will mean a benefit loss of approximately $132 for the average retiree and a loss of $222 for the average couple. Over the period 1983-89, as a result of the repetitive delay, the retiree would lose nearly $1,100, while the couple would lose $1,800. (These calculations assume average monthly benefit amounts of $416 for a single person ($700 for a couple) and an average annual inflation rate of 5.3% over the 1983-89 period.) Thus, this COLA freeze and delay is not a one-time, temporary cut, but one that is permanent, causing a loss in each year it is in effect.

For the roughly 4 million older persons already living in poverty with annual incomes of less than $4500-$5700, cuts in social security COLAs will be brutal. For the 3 million elderly hovering just above poverty, social security COLA cuts will push them below this threshold--dramatically increasing elderly poverty rates which are already the highest of any adult age group.

The unfortunate effect of any "across-the-board" social security cut, like a COLA cut, will be to disproportionately hurt the oldest and lowest-income segments of the aged population because they depend on social security for the bulk of their total income. According to Census Bureau statistics, single elderly persons age 65+ with incomes below $4,400 (approximately the 1981 poverty threshold) depend on social security for roughly 85-95% of their total income; elderly persons age 62+ in a family unit with incomes below $5,500 (the 1981 poverty threshold for couples) similarly depend on social security for 80-85% of their total income. The more heavily dependent on social security a person is, the more onerous a cut in social security is for them.

Poverty among elderly persons living alone (especially women, many of whom are widows) is extremely high and has risen over the last three years. In 1981, the poverty rate for all persons age 65+ was 15.3%--the highest poverty rate for any adult age group. This "average" poverty rate compares to poverty rates among the single aged social security population of:

27.6% for single women 65 - 71
31.7% for single women 72+
26.9% for single men 65 - 71
20.1% for single men 72+

So many of the elderly are clustered just above the poverty threshold that relatively small drops in social security income will cause poverty rates to escalate dramatically. Among single social security recipients age 62+, 17% of them or over 1.4 million persons had incomes in 1981 between $4,400 and $5,500, within $1,000 of official poverty. Among families headed by a person

62+, 16.5% or about 1.7 million persons had incomes within $3,500 of the official poverty line. Thus, in 1981, over 3 million social security recipients, while not officially defined as "poor" had incomes low enough to put them at risk of becoming officially poor should substantial cuts in social security be legislated.

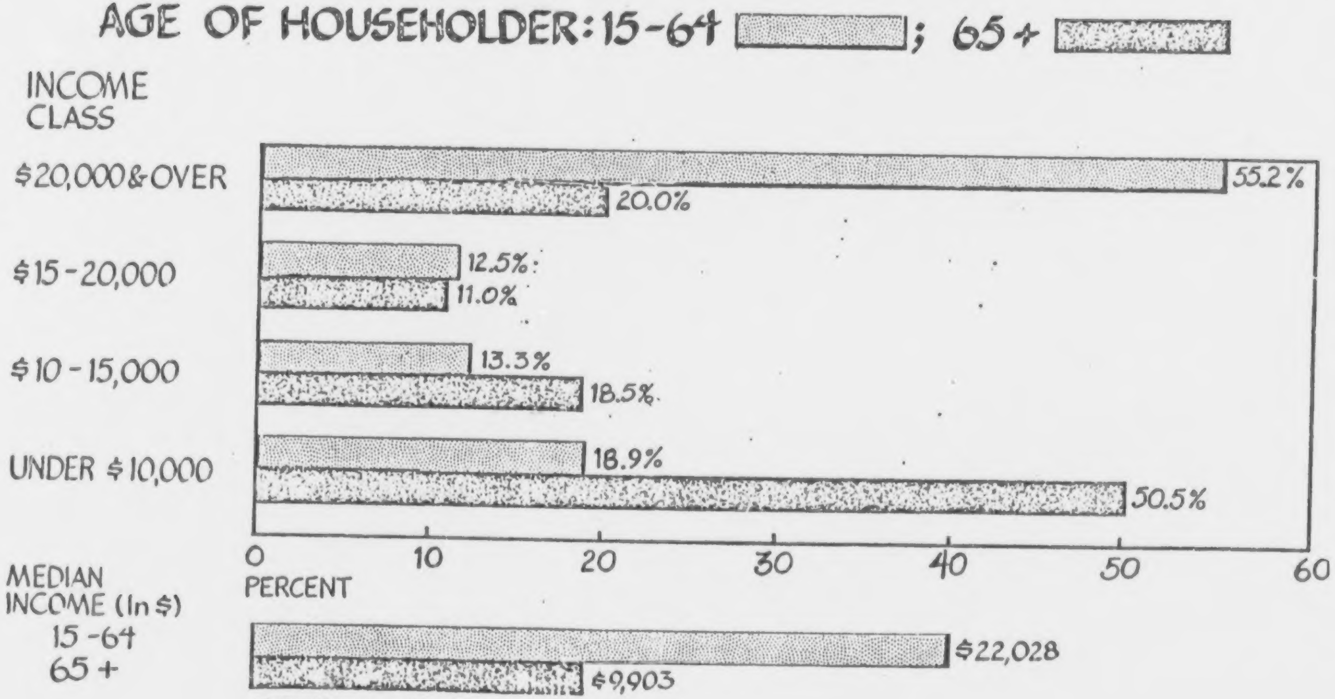
In addition to the elderly's high poverty rates, Census statistics show them to be heavily concentrated in the lower reaches of the income distribution, especially compared to the non-elderly. Over one-half have total incomes below $10,000 and relatively few are in the upper income reaches. The median income for elderly-headed households was $9,903, which is less than one-half the median income of non-elderly households ($22,028). These statistics and trends are illustrated by tables that follow.

TOTAL 1981 MONEY INCOME OF HOUSEHOLDS BY AGE OF HOUSEHOLDER

Income Class	Age of Householder	
	15-64	65+
under $5,000	7.8%	20.8%
$ 5,000 - $9,999	11.1%	29.7%
$10,000 - $14,999	13.3%	18.5%
$15,000 - $19,999	12.6%	11.0%
$20,000 and over	55.2%	20.0%
Median income	$22,028	$9,903

Source: Bureau of the Census. Money Income and Poverty Status of Families and Persons in the U.S.: 1981.

1981 HOUSEHOLD INCOME:
Elderly versus Non-Elderly



SOURCE: CENSUS BUREAU

Given the elderly's vulnerable economic situation and the heavy dependence on social security for the bulk of income support (especially among the oldest and the poorest), any substantial COLA cuts could throw millions of them into poverty and lead to a severe deterioration in their overall standard of living. Based on a 1982 study done for AARP by Data Resources Inc. (DRI), social security COLA cuts proposed last year (i.e., a one-year freeze followed by CPI-3% thereafter), would have thrown an additional 1.2 million elderly into poverty by 1985 and 2.1 million by 1990. (Copies of study available upon request.)

SSI Offset: The Commission proposes to increase SSI's $20 "unearned" income disregard to $50 beginning in June 1983, in an attempt to insulate the SSI population from the six-month COLA freeze.

First, this SSI proposal is not an adequate response to the drop in income that will occur for low-income social security beneficiaries. Unfortunately the SSI program reaches only 1.4 million elderly poor, while there are already 4 million elderly living below the poverty threshold and another 3 million hovering just above poverty line.

Second, a significant portion (approximately one-third) of the SSI population has no "unearned" income; they are nearly totally reliant on the SSI program for income. These recipients would receive no protection from the cut entailed with the SSI six-month COLA freeze/delay.

In order to provide more thorough protection for the low-income population, AARP recommends an expansion of the SSI program by: (1) increasing the SSI payment guarantee to at least 125% of poverty (currently SSI payment guarantees are equal to 72% of poverty for singles and 86% of poverty for couples); (2) eliminating the assets test; (3) increasing the unearned income disregard; and (4) eliminating the one-third reduction for persons living in the household of another.

Significant costs will probably be involved with these reforms. Therefore, we suggest that these costs be covered by some of the short-term revenue raising devices we recommend later in this statement.

AUTOMATIC STABILIZER: Lower of Wages or Prices

The Commission proposes that beginning in 1988, if OASDI trust ratios dip below 20%, an automatic COLA cut (equal to the lesser of wages or prices) would be triggered. When and if the trust funds reach 32%, then a pay-back mechanism will be triggered.

This stabilizer is certain to be triggered for three reasons:

1) the entire Commission package is likely to raise an insufficient amount of money (in fact, only a 22% reserve ratio is expected in 1988 under Commission assumptions);

2) the economic assumptions underlying the package are optimistic -- in 1988, 7% unemployment, 5.3% inflation and 3.5% real GNP growth rates are expected; and

3) in determining whether the OASDI trust fund ratio has declined below 20%, the trust funds must be reduced by any outstanding loan (including interest) from the Hospital Insurance (HI) trust fund (OASI has already borrowed $12.4 billion from HI and may borrow more if interfund borrowing is extended).

However, even if this "automatic stabilizer" is triggered, it may fail to financially stabilize the system. The rationale behind this stabilizer assumes that in the future the system's financing will be suffering mainly from high inflation (and high costs) -- when in fact sluggish growth and high unemployment may cause the system to lose on the revenue side. Under an economic scenario of low inflation and high unemployment, this "automatic stabilizer" could not yield the COLA savings necessary to stabilize the system. It is far more appropriate and rational under a lower inflation/high unemployment scenario to use an automatic stabilizer that will trigger more revenue for the system, not benefit reductions.

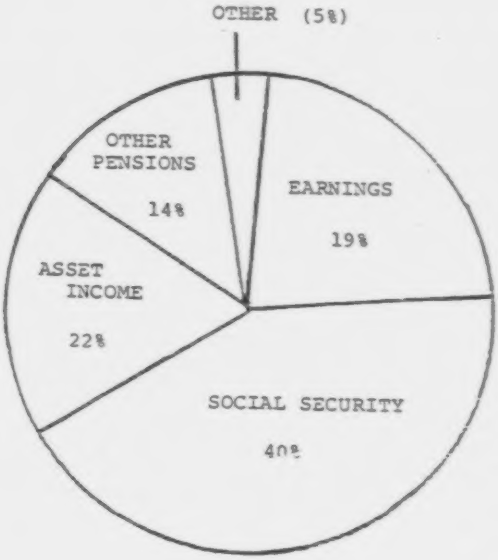
Impact on Beneficiaries: If we experience a resurgence of inflation, then this stabilizer could destroy the inflation protection for both current and future retirees by severely reducing real benefit levels. Some attempt to justify this proposal on the grounds that social security needs to be made financially "self-adjusting" and "self-stabilizing." Hiding behind that rationale is a proposal that would make the system more financially stable at the financial expense of beneficiaries. The proposed mechanism would transfer the full financial risk of economic problems -- specifically, high inflation and low or negative real wage growth -- from government and the social security system directly to recipients who, relative to other groups in society, are least able to bear that risk.

It is often argued that social security recipients have been doing a lot better than the working population since, in some recent years, price increases (and COLAs) have outpaced price increases. Some proponents of the wage cap proposal seem to thus be advocating it on the grounds of equity -- in other words, it is inequitable to allow the incomes of retirees to rise more rapidly than the incomes or wages of workers who must support government programs through taxes.

First, it must be pointed out that wages usually represented the bulk of workers' incomes. Therefore, any wage increase received tends to protect most of a worker's income -- an income which tends to be double that of the average social security income. In contrast, social security does not represent the elderly's total income. In fact, in 1980, social security accounted for only 40% of the elderly's total income. Income from pensions and other assets (for which little or no automatic inflation protection is available) represented 36% of their total income. (See following chart) Thus, full cost-of-living adjustments maintain the real value of less than half of most retirees' income. And for the low-income elderly population (with total incomes of $5,000 or less), social security represents 80% or more of their income. It simply cannot be alleged that full social security cost-of-living increases are allowing all retirees' total incomes to rise more rapidly than the incomes of workers. This is only true for the lowest-income segments of the aged population who need inflation protection the most.

SHARES OF INCOME SOURCES FOR

THE AGE 65+ POPULATION

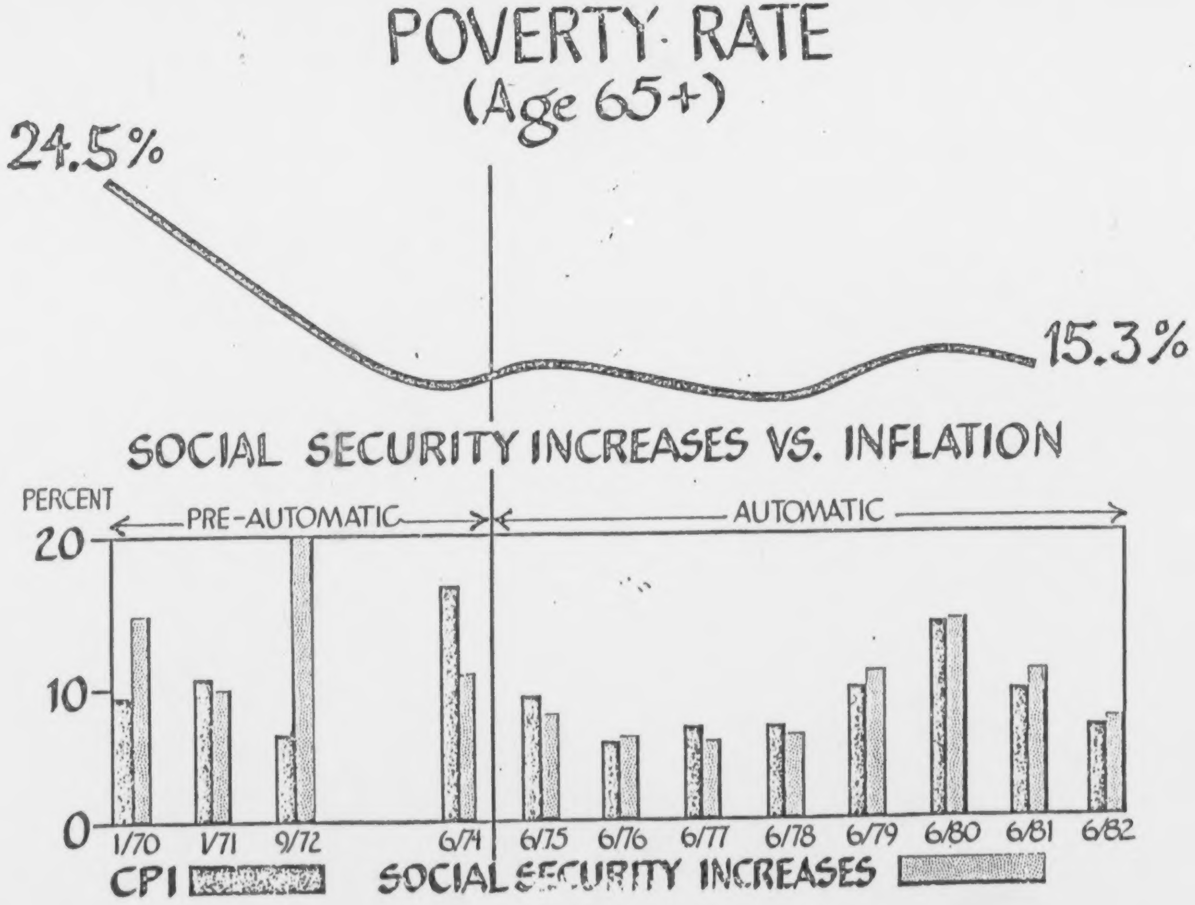


Second, it must be pointed out that wage increases have historically exceeded price increases and this trend is expected to resume in the near term. Unless Congress is willing to adjust benefits according to the rise in wages on a permanent basis even when wages begin to outpace prices in the future, then the wage indexing cannot be sold on the grounds of equity. Beneficiaries will feel -- and rightfully so -- that they will always be getting the "short end of the stick." The overall rationale for cost-of-living adjustment mechanisms must be consistent. These mechanisms are not for the purpose of passing along to current retirees increases or decreases in the standards of living of current workers, but rather for the purpose of maintaining benefit purchasing power.

It has also been pointed out that since 1970, while prices rose 149% and average weekly earnings rose only 121%, social security benefits rose 205%. The obvious implication is that not only have the aged beaten inflation since 1970, but also the improvement in their living standards has greatly exceeded that of working people. It was not pointed out, however, that in 1968 the poverty rate among the aged was over 25% and among aged recipients of social Security was 44%. Congress intentionally and properly acted to help alleviate this national disgrace by increasing social security benefits in 1972 by an amount well in excess of the inflation rate. In the intervening decade, since 1974-75, Congress has provided cost-of-living increases that by and large served only to maintain the purchasing power of social security benefits. The poverty rate trends compared to social security increases are illustrated on the following page.

Workers have reasonable expectations over their future working lives of making up any real income loss they are currently suffering as a result of high inflation or unemployment. Retirees, because they are not wage-earners and have many fixed components to their income, have no expectations for recouping the inflation losses they have already incurred and would incur under a wage cap COLA proposal.

In addition, this automatic stabilizer has the serious potential for destabilizing future workers' replacement rates (i.e., the degree to which social security replaces a worker's pre-retirement earnings). This could occur with respect to workers retiring in the future at age 65, since the Primary Insurance Amounts (PIAs) of these workers are determined at age 62+ and then are kept up-to-date (between their 62nd and 65th birthdays) by the COLA provided in each of these three years. Workers retiring in a recessionary


POVERTY RATE
(Age 65+)
24.5%
15.3%
SOCIAL SECURITY INCREASES VS. INFLATION
PERCENT
20
10
0
PRE-AUTOMATIC
AUTOMATIC
1/70
1/71
9/72
6/74
6/75
6/76
6/77
6/78
6/79
6/80
6/81
6/82
CPI
SOCIAL SECURITY INCREASES

period (when wages lag behind prices) would find their real lifetime benefits reduced, especially when compared to another cohort of workers retiring during a period of robust wage growth. For example, with this automatic stabilizer in effect, an economic experience similar to 1978-81 would have lowered replacement rates by as much as 8% for certain retirees. (See Congressional Budget Office, Financing Social Security: Issues and Options for the Long Run, November 1982, p. 52)

Similarly, these types of technical problems can arise with the "catch-up" provision suggested by the Commission. When this proposal is examined closely, one finds that once a benefit loss is incurred, the "catch-up" provision may not begin to restore the loss until several years later. Since the restoration process could easily span a decade, many older persons who would have suffered the benefit loss will die, while many persons who did not suffer the benefit loss will reap the rewards of the restoration. According to 1977 statistics, approximately one million retired social security recipients leave the social security rolls per year and 1.6 million are new entrants.

In addition, a lower of wages or prices COLA mechanism is likely to be out of sync with the needs of beneficiaries, because it would reduce COLAs most steeply when inflation rates are high--which is the very time when beneficiaries are most in need of full inflation protection. Similarly, any "catch-up" would likely occur during periods of low inflation when such compensation is least needed. In addition, if low or negative real wage differentials continue over a period of years, then the proposal would inevitably ratchet down real benefit levels year after year to a point where it would be extremely unlikely that they could ever be built back up again by the proposed "catch-up" mechanism.

INTERFUND BORROWING

Over the past year, the OASI fund has been permitted to borrow funds from the DI and HI funds. This borrowing authority is to become inoperative by June 1983. The Commission suggests, however, that OASDI be permitted to borrow from the HI fund through 1987.

This provision could be financially disastrous for Medicare. OASI has already borrowed $12.4 billion from HI, and no schedule of repayment of these loans has been recommended. Without any additional borrowing, depletion of the HI trust fund is expected in 1989-90. If interfund borrowing is extended, HI's depletion could occur several years sooner and easily prompt massive cutbacks in or even a mean-testing of Medicare. Neither Congress nor the Administration at this time is prepared to grapple with Medicare's cost problems in the comprehensive, fundamental manner necessary.

UNIVERSAL COVERAGE

Over the past few years various proposals have been advanced to mandate social security coverage in one form or another for public-employee groups, as a means for generating additional short-term revenue. The Commission's recommendation is to mandate coverage for newly-hired federal employees and to ban any further withdrawals of state and local government employee groups.

As a matter of principle, AARP believes that employee groups, which are not presently covered by social security, should not be forced into the system against their will, especially in the obviously unfair manner contemplated by most proposals. It is not surprising that the employee groups affected react so negatively to such coverage proposals, since these proposals are always made in the context of a financial "rescue" for social security. Adding to this anxiety, most coverage proposals, including the Commission's, lack the necessary safeguards to guarantee benefits for current retirees and workers and omit details regarding the proper coordination between social security and newly-created, supplementary public systems.

"UNFUNDED" GENERAL REVENUES IN THE COMMISSION'S PACKAGE

As presently drafted, the Commission's recommendations entail the use of substantial amounts (over $65 billion over the 1983-89 period) of general revenue either by a direct infusion of general funds into the trust funds or by requiring the expenditure of general funds through an offsetting income tax cut or offsetting improvement in a general revenue financed program (i.e., SSI).

Most of the revenue (nearly $38 billion out of the $65 billion) will require a draw on existing general funds since no specific mechanism (except taxation of benefits) is suggested by the Commission for the purpose of raising the newly required general funds. Listed below are estimates of the amounts of general revenue contained in the Commission package:

Commission Provision	1983-89 General Revenue Amounts
1. Taxation of one-half of social security benefits (direct infusion into OASDI trust funds; however, revenue is raised by specific tax mechanism)	$26.6 billion
2. Credit OASDI trust funds for military wage credits and unnegotiated checks	$17.2 billion
3. Refundable employee income tax credit payable in 1984 for OASDI tax rate increase	$ 4.3 billion
4. Reduction in income taxes of self-employed resulting from deduction of one-half of their OASDI taxes as a business expense	$12.0 billion
5. Increase in SSI unearned income disregard from $20 to $50 a month	$ 5.3 billion
TOTAL	$65.4 billion

Analysis: As described in the following section, the "unfunded" general revenues contained in this package should be specifically raised through appropriate tax mechanisms to avoid drawing on existing general funds and thereby making the general budget deficit problem that much more difficult to deal with.

AARP ALTERNATIVES: SHORT-TERM FINANCING

AARP proposes that --instead of relying heavily upon COLA cuts, taxing benefits or payroll tax hikes-- revenue should be temporarily raised from other more broadly based tax sources which would not unfairly burden workers or older Americans nor dampen chances for economic recovery. These revenues could be temporarily earmarked for the social security trust funds. Such revenues could come from a variety of options, as described below.

OPTION	Estimated FY 83-87 Revenue Yield (in billions)
Reduce 1983 rate cut to 5%	$88
Modify deductibility of interest on consumer credit **	$20
Impose a windfall profits tax on natural gas following decontrol*	$20
Double excise tax on liquor*	$18
Double excise tax on beer and wine*	$ 7
Maintain excise tax on cigarettes (86-87)**	$ 4
Modify treatment of employer-paid health insurance premiums**	$26
Repeal certain oil and gas industry tax preferences**	$40
TOTAL	$223

SOURCES: *CBO, Reducing the Federal Deficit: Strategies and Options, February 1982

** Senate Budget Committee: Tax Expenditures, March 1982

While this table does not cover all available options, it can be used as a starting point for the consideration of non-payroll tax sources of revenue for social security. Detailed descriptions of each option follow.

1. Reduce 1983 rate cut to 5%. This change alone would raise $88 billion over five years for the social security system. This option could be redesigned in a number of ways depending upon the needs of the economy and of the social security trust funds. Rather than reducing the rate cuts, a surcharge could be placed on the income tax. Also, the full ten percent rate cut could be postponed, with the revenue gain going to social security. As another alternative the rate cut could be modified according to income class.
2. Modify deductibility of interest on consumer credit. Currently interest paid for consumer credit (such as on a credit card payment) is fully deductible. Figures show that the benefit of this provision is heavily weighted toward upper income taxpayers. This provision could be reworked to target benefits more effectively and to raise revenue. A total elimination of this tax expenditure would raise nearly $44 billion over the next five years.

3. Impose a windfall profits tax on natural gas following decontrol. This tax would be imposed following decontrol on January 1, 1985.
4. Double excise tax on liquor. This proposal would raise a tax which was last increased in 1951.
5. Double excise tax on beer and wine. This tax also was last raised in 1951.
6. Maintain excise tax on cigarettes (86-87). The Tax Equity and Fiscal Responsibility Act of 1982 raised the cigarette tax from 8 to 16 cents a pack for fiscal years 83-85. After FY 85, the tax would revert back to 8 cents a pack. This proposal would keep the tax at 16 cents.
7. Modify treatment of employer-paid health insurance premiums. Currently health insurance premiums and medical care expenses paid by the employer can be deducted by the employer and are not considered income to the employee. In addition to causing a large revenue loss (more than $100 billion over the next five years) it has been argued that this provision helps to drive up the cost of medical care.
8. Repeal certain oil and gas industry tax preferences. One such preference, the percentage depletion allowance, is a write-off of 18 percent (in 1982) of the gross income (up to a limit) from select oil and gas wells. This method often allows the well owner to recover much more than the cost of extraction. Another provision, expensing for intangible oil and drilling costs, would allow certain costs to be written off in the year they occurred rather than adopting the general approach of depreciating these costs over a period of years. Given the major restructuring of the corporate income tax that Congress enacted in 1981, these preferences should be carefully reviewed.

AARP ALTERNATIVES: LONG-TERM FINANCING

Social security's long-term deficit is practically ignored by the Commission's recommendations. The package is void of any rational, structural reforms that are responsive to the serious demographic trends with which the system must cope.

AARP is convinced that social security faces a long-term deficit of serious proportions. Public recognition of this long-term deficit is increasing as reflected in public opinion polls. To help restore younger workers' confidence in the system, we urge the Congress to address the system's long-term problems by aggressively encouraging and rewarding increased work effort on the part of future older persons.

Some social security policy analysts have argued that there is no need to recommend long-term changes in social security since, after 1990, the OASDI programs are expected to build up large surpluses and to be financially healthy until well into the next century. These analyses also maintain that many positive factors -- economic growth, favorable demographics, increased immigration -- could wipe away the long-term deficit. We believe it is unwise to rely on huge surpluses developing after 1990, since adverse economic conditions, like those we are now experiencing, could easily erase those projected surpluses and make the projected long-term deficit worse.

WORK PROMOTION STRATEGY

In order to allay younger workers' fears and deal with a long-term deficit that is very likely to materialize, our Association favors a long-term solution -- an aggressive work-promotion strategy for future older persons. The components of our strategy include:

--an actuarially-based delayed retirement credit of 8-10% (rather than the current 3%) for each year a person continues to work and elects to delay applying for benefits after reaching age 65;

--an increase in the early retirement penalty from current 20% to 30% (to be phased in over 5-10 years);

--increased access to social security disability and SSI benefits for workers age 62-65 who suffer from chronic health impairments;

--a phase out of the earnings limitation for persons age 65+, while retaining it for those under age 65.

The main components of this work promotion strategy, however, must be legislated now to be phased-in in the not-too-distant future so that its potential effectiveness on the work patterns of older persons can be tested.

In order to achieve a voluntary delay of retirement decisions, social security must provide stronger work incentives than it does today. To this end, the Association recommends three changes. First, the delayed retirement credit (available to persons who elect to delay retirement past age 65) should be substantially increased. Under present law, workers receive a small 3% bonus for each full year they delay filing for benefits. By increasing the delayed retirement credit to the actuarially fair level of 8 to 10%, the credit would provide more adequate compensation for continued work and therefore provide a stronger incentive for persons to remain working full-time and delay filing for benefits. Congress should not wait until 2010, as recommended by the Commission, to have this change fully phased-in.

Second, in order to provide a stronger incentive to keep working (and a stronger disincentive to retire early) in the case of able-bodied workers between the ages of 62 and 65, the disincentive for early retirement applied at age 62 should be gradually increased from it's present level of 20% to 30%. With this change, older workers would receive a 10% increase in their benefit amounts for every year between age 62 and 65 they postpone filing for benefits. This 10% benefit increase is larger than the 6.6% increase provided by current law and should, therefore, act as a stronger financial incentive for willing and able older persons in this age group to remain employed through or beyond age 65. As it is today, two out of every three retired worker beneficiaries begin receiving benefits before age 65. This is a trend that will be insupportable in the future.

Any increase in the early retirement disincentive, however, must be accompanied by expansion of the DI and SSI programs so that older workers age 62-64 who are chronically disabled or involuntarily unemployed have reasonable benefit options available to them. Under current disability provisions, the consideration of non-medical factors (age, education, vocational problems, reemployment prospects) in awarding DI benefits is particularly crucial for older workers in gaining access to the program. Therefore, non-medical factors should continue to be considered in determining disability and their application should be liberalized in the future.

As a third component of this work promotion strategy, the Association supports elimination of the earnings limit for persons age 65+. The limit has acted as the major work discentive for the elderly and its elimination must be a key element of any attempt to change social security so that it encourages increased work effort.

We understand that concern exists about the "cost" of such a reform. However, we would point out that having a factor in social security that causes people to limit their work effort imposes a significant "cost" on society. We are convinced that the economic "cost" in terms of lost production and lost tax receipts that results from having the earnings limitation is greater than the "cost" of the additional social security outlays that repeal would entail.

An important article on the subject of cost was published in the September 1979 Social Security Bulletin. It is entitled, "Tax Impact for Elimination of the Retirement Test," and is authored by Josephine G. Gordon and Robert N. Schoeplein of the Office of Research and Statistics, SSA. This study concluded that elimination of the retirement test for workers age 65-69 would generate an additional $678.6 million in payroll taxes and an extra $997.8 million in federal individual income taxes. This additional revenue, when combined ($1.656 billion), would offset 79% of the $2.1 billion SSA had estimated at that time it would cost to repeal the test. In addition, it has been estimated by SSA that it costs more than $68 million per year to administer the test due to the complicated forms and periodic reporting that it necessitates.

Some analysts argue that higher income persons would exclusively reap the benefits of eliminating the earnings limit. These analyses ignore the fact that over half of workers age 65+ hold their earnings below the earnings limit and they would also benefit from repeal of the limit. Their benefit would be in the form of the higher wages which they could earn, not in the form of higher social security benefits. SSA statistics reflected in the following table indicate that in 1977, 51% of male workers age 65-71 kept their earnings below $3,000 (the earnings limit in effect at that time).

TABLE 1. Number & percentage distribution of workers with taxable earnings, by amount of earnings and sex, 1977.

AMOUNT OF EARNINGS	MEN 65-71	WOMEN 65-71
Total Number	1,461,000	897,000
Total Percent	100	100
Less than $3,000	51%	63%
$3,000 - 6,999	18%	20%
$7,000 -14,999	17%	14%
$15,000 or more	14%	3%

Source: Continuous Work History Sample, SSA
Office of Research & Statistics, 1977

In addition to this social security work strategy, other complementary changes are needed. All mandatory retirement practices must be prohibited. Tax policies to encourage businesses to hire older workers should be formulated. The federal government should actively encourage alternative work programs (job-sharing, phased retirement, part-time jobs, etc.) and sponsor job opportunity, placement and retraining programs specifically targeted on older workers.

We are hopeful that the combined effect of this three-pronged package of social security work incentives would be to make the voluntary postponement of the decision to retire much more attractive for those older persons who are capable of continuing to work. In the process, they would be contributing to their own financial well-being, as well as the financial well-being of social security and other government programs through the increased payroll and income taxes they would be paying. Some of these increased taxes could go toward supporting those older persons who are less able or unable to continue to work.

We are recommending our work promotion strategy as an alternative to the age 68 proposal. The age 68 plan should be avoided because it would unfairly penalize disadvantaged older workers who become involuntarily unemployed or who are physically unable to keep working. Supporters of the age 68 proposal argue that because older persons are living longer, they will be able to work longer. Health statistics indicate a contrary trend; in 1980, higher proportions of men age 60-69 reported being unable to work due to chronic health problems than in 1970. (See Jacob Feldman, Statement before the National Commission on Social Security Reform, June 21, 1982).

Despite the fact that life expectancy rates have been increasing, many of the elderly, particularly women and minority groups, still find it necessary to "take early retirement" due to unemployment and health problems.

Furthermore, evidence exists to demonstrate that those working at physically demanding jobs tend to have shorter life expectancies. A recent study also found the men accepting benefits before age 65 had higher mortality rates. (See Congressional Budget Office, Financing Social Security, 1982.)

These trends indicate that the age 68 proposal runs the grave risk of substantially cutting social security benefits for a large, vulnerable segment of the future elderly population, thereby greatly increasing the likelihood of their living in poverty. Moreover, since raising the retirement age would cut the future benefits of current young workers (thus making social security a much less "good buy" for them), such a cut would likely undermine further their support for the programs.

SORTING-OUT SOCIAL SECURITY's DIVERGENT GOALS

The current social security (OASI) structure reflects a mix of earnings replacement and welfare/ social adequacy goals. To carry out the earnings replacement or pension goal, benefits are loosely tied to prior earnings histories. To carry out the welfare/ social adequacy goals, benefits are computed utilizing a heavily weighted formula which provides relatively higher benefits (in relation to prior earnings) to lower wage-earners and relatively lower benefits to higher wage-earners. Special minimum benefits are also provided to assist long-term, low wage-earners. In addition, benefits are provided to workers' dependents whether or not they have ever contributed to the system.

The pursuit of both earnings replacement and welfare/ social adequacy goals is appropriate within the context of programs that constitute social security. However, social security, as currently structured, attempts to achieve these often divergent and conflicting goals utilizing basically one benefit structure and one tax mechanism--the regressive payroll tax. This intermingling of goals within a single benefit and tax structure has led to many inequities and generated waste and duplication.

It has financially impaired the system's ability to achieve fully either of the goals of sufficient earnings replacement and the absence of poverty.

Many higher-income persons, for example, receive unintended benefit subsidies from the system's welfare/social adequacy elements and, ironically, these benefits are largely financed by the tax payments of lower and middle-income workers and their working spouses. At the same time, many lower-income persons who are truly needy and who have borne a disproportionate share of the payroll tax burden throughout their working lives are unable to attain even a bare subsistence level of living on their social security benefits.

To date, social security has been able to mix the earnings replacement and welfare/social adequacy functions without suffering any significant decline in public support. A favorable ratio of workers to beneficiaries and healthy economic growth rates have made it financially feasible for the system to provide large benefits in relation to what beneficiaries contributed to the system throughout their working lives. In the next century, however, beneficiaries may receive diminishing, and in some cases, negative rates of return on their social security contributions. This is likely to occur due to several factors:

the dramatic age shift in the population, the large payroll tax increases that are already scheduled (and the additional ones that could be legislated), the possibility of large benefit cuts (such as raising the age for full benefits), unfavorable economic conditions, and the possibility of scarce resources.

Under these conditions, the system is likely to be scrutinized as to how well it functions, who pays the taxes and who receives the benefits. Therefore, to reduce the increasing benefit and tax inequities inherent in the present structure and assure that the system as a whole operates in a cost-effective manner and in a manner that is understandable to the individual, the Association recommends that social security's earnings replacement goal be more clearly distinguished from its welfare/ social adequacy goals.

The earnings replacement function should be carried out through a benefit structure which stresses individual equity in awarding benefits and is financed from payroll taxes. The welfare/social adequacy functions should be carried out through a benefit structure specifically designed to meet those objectives. This latter structure should be financed out of general revenues generated from progressive tax mechanisms or other appropriate tax sources.

Should healthy economic growth rates such as those the nation enjoyed in the 1950's and 1960's fail to resume in the future or should the cost pressures that will accompany the aging of the post-war baby boom population prove more difficult to deal with than is presently anticipated, a restructured system would at least allow future policymakers to make coherent and rational choices regarding the allocation of scarce resources. The Congress would be better able to target benefits on the more economically disadvantaged segment of the elderly population without providing unintended windfalls to the more affluent. This is something that is nearly impossible to do under a social security's current structure.

ALTERING BENEFIT FORMULA

As an alternative means for dealing with social security's long-term deficit, proposals have been advanced to manipulate the benefit formula in a manner that would attempt to make across-the-board reductions in benefit levels for all future beneficiaries. The Association opposes all such proposals. Since social security is now, and will likely continue to be the primary source of income for the elderly, it is inevitable that these proposals will not only cause a significant deterioration in the future elderly's living standards, but also a resurgence of high poverty rates among the lower-income elderly population.

In addition, the Association believes this is the totally wrong way to deal with the long-term deficit. By cutting everyone's benefits across-the-board, these proposals would make benefits less of a good buy for younger workers than they are now and would reinforce the inequities inherent in the existing social security benefit structure.

Proposals to phase-in reductions in the bend-points of the current benefit formula are also likely to create inequities among different cohorts of retirees, since those returning before the phase-in would be unaffected while those retiring after the phase-in would have their lifetime benefits substantially reduced. The bend-point option also creates inequities within each cohort of retirees by changing the relative distribution of benefits. For example, under the bend-point option, those with the highest earnings and those with the lowest earnings would experience a greater decline in their lifetime benefits than those with average earnings. This distortion occurs because as the bend-points are shifted, workers with earnings near either of the two formula bend-points experience the largest benefit reductions.

Apart from the distortions inherent in the bend-points proposals, this reform approach completely ignores the revenue potential of any work promotion strategy which, by harnessing the system's ability to influence retirement decisions, could generate more income for social security over the long-term and thereby minimize any future need to raise taxes or reduce benefits.

In attempting to deal with social security's long-term difficulties, Congress can choose between two reform strategies. Either it can attempt to perpetuate the system's present benefit and financing structures and choose between raising payroll taxes further or reducing benefits substantially. Or it can attempt to restructure the system so that the system, first, encourages older persons to work longer and second, awards benefits in a more fair, efficient and equitable manner by using rational benefit and financing structures to carry out the system's divergent goals of earnings replacement and welfare/social adequacy.

The Association supports this latter reform strategy. Not only would it relieve cost pressures on the system, but it would provide current young workers with the assurance that social security represents a "good buy" or fair return on their investment, and that, in their later years, they will have good prospects for achieving income adequacy and avoiding poverty. This is an assurance that the system as presently structured does not provide.

STATEMENT OF JOSEPH ROURKE, ASSISTANT TO THE EXECUTIVE DIRECTOR, NATIONAL COUNCIL OF SENIOR CITIZENS, WASHINGTON, D.C.

The CHAIRMAN. Mr. Rourke.

Mr. ROURKE. Mr. Chairman, and members of the committee, I am Joseph Rourke, assistant to the director of the National Council of Senior Citizens. I am a volunteer on their Washington staff. I appreciate the opportunity to speak to you on their behalf on a subject vital to their welfare—social security.

I have Eric Schulman, our director of legislation, on my right, with me.

The National Council of Senior Citizens was founded in 1961 during a fight for medicare legislation, but our roots are deeply embedded in social security. Few of our members are not touched by this program. NCSC leaders and members share a deep and abiding commitment to the preservation and improvement of social security and work hard toward the goal that this Nation's senior citizens will live in dignity, security, and relative independence.

Mr. Chairman, the National Council of Senior Citizens commends the members of the National Commission on Social Security Reform for their accomplishments. While the Commission's recommendations contain provisions not readily embraced by groups and individuals whose perspective on social security and its financing differ markedly, several noteworthy points about the Commission's work in the compromise package must be made.

One, the Commission unanimously endorsed the preservation of both the system's fundamental structure and the principles on which it is based. By doing so, the Commission rightfully rejected proposals which would reform, replace or eventually destroy the Nation's vital social insurance program.

The Commission clearly established the scope of the financing problem and largely focused on the short-term financing of social security. In doing so, the members dispelled the unfounded predictions of the system's financial demise and the claims that major structural change was required

The National Council of Senior Citizens believes that these accomplishments are essential if we are to maintain today's workers and retiree's confidence that social security will adequately protect them.

In their discussions, the Commissioners focused on three time periods spanning the next 75 years. The first, between now and 1989, was the Commission's principal concern. The second period, 1990 to 2020, by most accounts, will be a time of relative ease for social security, as the trust fund builds up a surplus. The third, from 2020 to 2050, will be a time of uncertainty for social security.

However, the nature of the problem and the solution it requires will depend heavily upon the performance of the economy, unemployment, and inflation rates over time, and birth and immigration rates.

The short-term—1983 to 1989. The Commission not only agreed that a short-term problem exists between now and 1989, but it also firmly placed the blame for the problem on the poor economy. During the year in which the Commission worked, the Nation's economy fell deeper into recession and unemployment swelled to unprecedented post-war levels. Sensitivity to the harmful impact of the recession on the OASI trust fund revenues led the Commission to base its short-term projections on extremely pessimistic economic assumptions. It projected that $168 billion or 1.8 percent of payroll would be needed by the trust funds in the short term. Yet, we cannot help but wonder, Mr. Chairman, how much lower that projection would have been if Reaganomics was not such a failure. We wonder, too, how much smaller the burden on beneficiaries and workers would be if the future of Reaganomics were more optimistic.

The National Council has reviewed and evaluated the compromise package, and we have come to several conclusions. First, the immediate short-term problem is resolved by the concensus recommendations which are expected to have a secondary impact on the long-term period. Second, the recommendations are targeted toward the source of financing problems—the impact of the poor economy on the trust funds. Thus, trust fund revenue is replenished through existing tax sources rather than changing the benefit structure.

However, our evaluation indicates that in one important respect the package is flawed. It fails to equitably distribute burdens among those who are most able to bear them. In particular, we believe that the recommendation to freeze the COLA until January 1, 1984 penalizes the low-income elderly.

The 1972 amendments to the Social Security Act created an annual adjustment to monthly cash benefits to help maintain the real value of the social security benefit dollar. The annual COLA was designed to be protection against inflation for the beneficiary who had little or no means of increasing income to compensate for rising costs. It also removed beneficiaries' income security from the whims of politics and guaranteed an adjustment each year that inflation exceeded 3 percent.

The COLA is needed by all social security recipients to maintain their already reduced standard of living. They have lost their earning power, and any other income, such as private pensions, is not fully indexed, if at all. To the one out of four elderly people who live in or near poverty and to those for whom social security is a major source of income, the COLA is vital. For them, the loss of a few dollars a month could really mean giving up a needed prescription drug, a few hot meals, paying utility bills, or visiting their doctor.

We point out another undesirable consequence of this COLA freeze. While the Commission recommended a change only for the social security COLA, attempts are underway to apply the freeze to welfare programs, such as SSI and food stamps. This strategy is unfair to the recipients of those programs, whether or not they are social security beneficiaries. Moreover, the strategy links programs that are and should remain separate. The SSI and social security COLA could be granted at the same time but a change in one program should not penalize recipients of the other program.

We suggest that if any change in the SSI COLA is to be made, it should be accomplished after the July 1983 COLA is granted. Another midyear adjustment can be made on January 1, 1984 so that future SSI and social security COLA's could be granted simultaneously. Such a shift would not impose financial hardship on SSI recipients.

Mr. Chairman, while we find the COLA freeze distasteful and unfair and would urge that it be modified or eliminated from the package if at all possible, we will not fight its enactment as part of a total compromise package. But, if the compromise does become unravelled, and there are any significant modifications or additions, we will not hesitate to enlist vigorous efforts to defeat the COLA provisions.

Long term—2020 through 2050. In a recent interview on the CBS television show "Face the Nation," Secretary of the Treasury, Donald T. Regan, said in response to the question about the administration's economic forecast:

> I don't really believe that anyone can forecast with any degree of validity beyond 1 year. As a matter of fact, most business economists last year, along with the administration, missed the whole thing. As late as the middle of the year, business forecasters and the administration forecasters were saying that we would have a recovery in the second part of 1982 It did not happen. So that meant none of us projected 6 months in advance with any degree of correction.

The United States and Canada are the only two nations in the entire world that make actuarial estimates for their national pension programs 75 years in the future. One important——

The CHAIRMAN. I wonder if you might summarize. We are going to have to stick to the schedule. We have 18 or 19 witnesses today.

Mr. ROURKE. OK.

In closing, let me stress that social security is deeply embedded in the American way of life. The people want it, need it, and could not do without it.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Rourke follows:]

Statement by

Joseph Rourke
Assistant to the Executive Director
National Council of Senior Citizens
925 15th Street, N.W.
Washington, D.C. 20005

before the

U.S. Senate Committee on Finance

February 22, 1983

Mr. Chairman, members of the Committee, I am Joseph Rourke, Assistant to the Executive Director of the National Council of Senior Citizens. I have been a member of NCSC for almost ten years and am a volunteer on the staff here in Washington, D.C. NCSC is a national organization which represents 4.5 million elderly people in every state through 4,500 senior clubs and state and area councils. I appreciate the opportunity to speak to you on their behalf on a subject vital to their welfare: Social Security.

The National Council of Senior Citizens was founded in 1961 during the fight for Medicare legislation, but our roots are deeply embedded in Social Security. Few of our members are not touched by this program. NCSC leaders and members share a deep and abiding commitment to the preservation and improvement of Social Security and work hard toward the goal that this nation's senior citizens will live in dignity, security, and relative independence.

Because of milestones such as Social Security and Medicare, this country has made great strides toward achieving that end. Testimony to Social Security's success is that 14 to 15 million elderly people are kept out of poverty. However, future success will not be assured without continued effort by groups such as NCSC and its members, and by sensitive public leaders from the Congress to the White House. The work of the National Commission on Social Security Reform and this series of hearings are such efforts.

Although the Commission was appointed to avert what some viewed as an impending crisis, we must consider their work as part of a process of adjustment to a dynamic, maturing social insurance structure. President Franklin Delano Roosevelt's words when he signed the Social Security Act nearly 48 years ago illustrate this concept well:

> The civilization of the past hundred years, with its startling industrial changes, has tended more and more to make life insecure. Young people have come to wonder what would be their lot when they come to old age. The man with a job has wondered how long the job would last... We can never ensure 100 percent of the population against 100 percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and his family against the loss of a job and against poverty-ridden old age. This law, too, represents a cornerstone in a structure which is being built but is by no means complete.

And so we are here today to address the issue of how the Social Security system can be adjusted to meet its financial needs while assuring its ability to serve the citizens it was created to protect.

The National Commission on Social Security Reform

Mr. Chairman, the National Council of Senior Citizens commends the members of the National Commission on Social Security Reform for their accomplishments. While the Commission's recommendations contain provisions not readily embraced by groups and individuals whose perspective on Social Security and its financing differ markedly, several noteworthy points about the Commission's work and the compromise package must be made:

1. The Commission unanimously endorsed the preservation of both the system's fundamental structure and the principles on which it is based. By doing so, the Commission rightfully rejected proposals which would reform, replace or eventually destroy the nation's vital social insurance program.
2. The Commission clearly established the scope of the financing problem and largely focused on the short-term financing of Social Security. In doing so, the members dispelled the unfounded predictions of the system's financial demise and the claims that major structural change was required.

The National Council of Senior Citizens believes that these accomplishments are essential if we are to maintain today's workers and retirees' confidence that Social Security will adequately protect them.

Recommendations of the National Commission on Social Security Reform

The package of recommendations reported by the National Commission has been praised by many people, including the Commission Chairman, as a true compromise: nobody likes it. The National Council of Senior Citizens is no exception. Yet we recognize the value of the compromise and will not try to destroy it.

We understand that the compromise represents a very delicate agreement among participants who hold opposing views on Social Security and on the remedies that should be enacted. We believe, therefore, that the Commission's recommendations must be examined and judged as a whole package. To depart from that perspective would destroy the package and jeopardize the progress made thus far toward correcting trust fund imbalances without overburdening any affected groups. If changes are to be made, they should be accomplished within the framework of the compromise and not upset the balance.

In their discussions, the Commissioners focused on three time periods spanning the next 75 years: The first, between now and 1989, was the Commission's principal concern. The second period, 1990 - 2020, by most accounts, will be a time of relative ease for Social Security as the trust funds build up a surplus. The third, from about 2020 - 2050 will be a time of uncertainty for Social Security. However, the nature of the problem and the solutions it requires will depend heavily upon the performance of the economy, unemployment and inflation rates over time, and birth and immigration rates.

° The Short Term: 1983 - 1989

The Commission not only agreed that a short-term problem exists between now and 1989, but it also firmly placed the blame for the problem on the poor economy. During the year in which the Commission worked, the nation's economy fell deeper into recession and unemployment swelled to unprecedented post-war levels. Sensitivity to the harmful impact of the recession on the OASI trust fund revenues led the Commission to base its short-term projections on extremely pessimistic economic assumptions. It projected that $168 billion or 1.8 percent of payroll would be needed by the trust funds in the short term. Yet, we cannot help but wonder, Mr. Chairman, how much lower that projection would have been if Reaganomics was not such a failure. We wonder too, how much smaller the burden on beneficiaries and workers would be if the future of Reaganomics were more optimistic.

NCSC has reviewed and evaluated the compromise package and we have come to several conclusions. First, the immediate, short-term problem is resolved by the consensus recommendations which are also expected to have a secondary impact on the long-term period. Second, the recommendations are targetted toward the source of financing problems: the impact of the poor economy on the trust funds. Thus, trust fund revenue is replenished through existing tax sources rather than changing the benefit structure.

However, our evaluation indicates that in one important respect the package is flawed. It fails to equitably distribute burdens among those who are most able to bear them. In particular, we believe that the recommendation to freeze the COLA until January 1, 1984 penalizes the low-income elderly.

Proposal to Freeze the COLA

The 1972 amendments to the Social Security Act created an annual adjustment to monthly cash benefits to help maintain the real value of the Social Security benefit dollar. The annual Cost-of-Living-Adjustment (COLA) was designed to be protection against inflation for the beneficiary who had little or no means of increasing income to compensate for rising costs. It also removed beneficiaries' income security from the whims of politics and guaranteed an adjustment each year that inflation exceeded three percent.

The COLA is needed by all Social Security recipients to maintain their already reduced standard of living. They have lost their earning power, and any other income, such as private pensions, is not fully indexed, if at all. To the one out of four elderly people who live in or near poverty and to those for whom Social Security is a major source of income, the COLA is vital. For them the loss of a few dollars a month could really mean giving up a needed prescription drug, a few hot meals, paying utility bills, or visiting the doctor.

We are being told that the COLA delay would result in a one-time $120 loss for the average older beneficiary. However, this is not the case. There is also a cumulative effect; a six-month freeze could in fact result in a total loss of about $1,100 per beneficiary between now and 1990. Moreover, the freeze is regressive and will hit hardest the low-income elderly with little or no other financial support. This group is also one with little social or family support.

In addition, it has been suggested that if such a COLA delay is to be implemented, now is the best time to do it, given current low inflation rates. Recent Bureau of Labor Statistics figures show that the change in the CPI for all items from 1981 to 1982 was 6.1 percent. However, what this fails to show is that the vast majority of elderly persons spend almost 95 percent of their budgets on food, shelter, medical care and energy. The cost of at least two of these items is increasing faster than the CPI: in 1982, health care costs rose 11.6 percent and energy costs rose 9.6 percent. The COLA therefore does not even truly compensate the elderly for the costs of many of their most basic needs.

Mr. Chairman, we are not only concerned that the COLA does not adequately compensate the elderly for inflation and that freezing it would impose hardship on many older persons. We are also concerned that the three percent inflation rate which triggers a COLA will not be reached this year. Certainly such a low inflation rate is desirable, although currently it is the result of a recession devastating to workers and older people. For the elderly to receive no COLA when inflation continues at high levels in areas such as health and energy would be tragic.

As we have made clear, for those older people living on the edge of poverty, such a loss would be too much for them to bear. We urge you to look at this and consider either reducing the trigger rate or suspending it for this year.

We must also point out another undesirable consequence of this COLA freeze proposal. While the Commission recommended a change only for the Social Security COLA, attempts are underway to apply the freeze to welfare programs such as SSI and Food Stamps. This strategy is unfair to the recipients of these programs, whether or not they are Social Security beneficiaries. Moreover, the strategy links programs that are and should remain separate. The SSI and Social Security COLA could be granted at the same time but a change in one program should not penalize recipients of the other program.

We suggest that if any change in the SSI COLA is to be made, it should be accomplished after the July 1983 COLA is granted. Another mid-year adjustment can be made on January 1, 1984 so that future SSI and Social Security COLAs could be granted simultaneously. Such a shift would not impose financial hardship on SSI recipients.

To summarize our position on the COLA freeze, we acknowledge that the COLA delay has been proposed in the context of the compromise package. It is part of a package that contains proposals which, on an individual basis, are unacceptable to a wide range of individuals and groups. Were this proposal offered under different circumstances, clearly we would vehemently object and employ concerted efforts to defeat it.

Yet that is not the case in this instance. This compromise was worked out after much bargaining and negotiation, and we believe that it is a generally acceptable compromise. If enacted as is, it will resolve Social Security's short-term financial difficulties. It would contribute to increasing the public's confidence in the system and remove lingering doubts that the Social Security system is doomed. These goals are of paramount importance to our members and all Social Security beneficiaries.

Therefore, while we find the COLA freeze distasteful and unfair and would urge that it be modified or eliminated from the package if at all possible, we will not fight its enactment as part of the total compromise package. But, if the compromise does become unraveled, and there are any significant modifications or additions, we will not hesitate to enlist vigorous efforts to defeat the COLA provisions.

The Mid-Range (1990 - 2020)

The National Commission and the Social Security Trustees recognize much of this period as one of financial strength. The Commission predicts that "income will significantly exceed outgo"* through the early 2000's under the intermediate cost estimate.

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*Report of the National Commission on Social Security Reform, January 1983.

Payroll tax rates already written into law, even if accelerated, will increase revenue to the OASI trust fund after 1990. Concurrently, the OASI costs will decrease during this period because the over-65 population will grow more slowly due to lower fertility rates during the Great Depression years of the 1930's. At the same time, the post-war baby boom generation is expected to be in the labor force, contributing to growth of payroll tax revenues and maintaining a steady worker to beneficiary ratio for the next 30 years or so.

Considering this mid-term projection, the National Council of Senior Citizens believes that the Commission's recommendations are focussed in the proper time frame. Their recommendations take the system through the critical short-term period, and, recognizing the surpluses predicted for the mid-term, assure nearly 50 years of Social Security solvency.

The Long-Term (2020 - 2050)

In a recent interview on the CBS television show "Face the Nation" Secretary of the Treasury Donald T. Regan said in response to a question about the Administration's economic forecast:

> ...I don't really believe that anyone can forecast with any degree of validity beyond one year. As a matter of fact, most business economists last year, along with the Administration, missed the whole thing. As late as the middle of the year, business forecasters and the Administration forecasters were saying we'd have a recovery in the second part of 1982. It did not happen. So that meant none of us projected six months in advance with any degree of correctness. (January 23, 1983)

The United States and Canada are the only two nations in the entire world that make actuarial estimates for their National pension programs seventy-five years into the future. One important problem with this is that even a slight error in any of the projections, for instance unemployment, would have tremendous implications for the solvency of the Social Security system.

We are alarmed that given the uncertainty of the future, we sit here today contemplating radical changes in the structure of the system. These changes have been suggested in order to resolve a perceived problem which will not occur for almost 50 years, if at all. We strongly oppose proposals such as raising the retirement age for Social Security eligibility now to address a problem which may or may not occur in the far distant future.

If this were the only reason for our opposition to a proposal such as raising the retirement age for Social Security eligibility, it would be sufficient. However, there are others:

1. This proposal is a benefit cut. If the age is raised to 68, benefits would be cut by 20 percent relative to those received at age 65; if it is raised to age 67, the cut is 13 percent; and if it is set at age 66, the cut is 7 percent.

2. The proposal would hit the same people who are now being asked to bear a great part of the additional financing burden through increased payroll taxes: current workers.

3. The proposal is particularly unfair to those who have had to perform heavy labor throughout their lives. Compared to white collar, higher paid workers, industrial employees will experience more physical difficulty if forced to work longer, and will achieve little financial gain.

4. While it is true that Americans are living longer, we are experiencing more major disabling illnesses as life expectancy increases. Medical advances have been successful in

reducing infant mortality rates and diseases of the young, but fewer advances have been made in diseases such as diabetes, arthritis and heart disease prevalent among the old. Chronic diseases cause 83 percent of all days of restricted activity reported by those over 65.

This proposal would not build confidence in the system among young people. In fact, it would erode it. Many fear that such a move would be the first step toward making a Social Security retirement an unreachable goal. Perhaps that is why in a recent New York Times/CBS News Poll, people of all ages were united in their preference for 65 as the age of retirement. The idea was rejected by a 57 percent to 39 percent vote. This was the same poll which showed that by an overwhelming 58 percent to 27 percent, young people felt the system would be unable to pay benefits when they retired. Clearly, raising the retirement age is no solution for them.

The broad-based opposition to raising the retirement age holds true for another proposal that has been suggested: reducing the replacement rate benefit formula from its current 42 percent of previous earnings to 40 percent. This is a real benefit reduction of five percent. The National Council is unwilling to accept such a solution, primarily because we are not convinced of the problem.

Mr. Chairman, while many of our members have communicated their concern about the six-month COLA delay, a number have raised objections to these long-term benefit cuts as well. They do so out of concern for today's workers and out of their concern for preserving the integrity of the Social Security system. But they are also concerned about their own welfare. Should Social Security begin to lose its broad base of support, they know the system would be in serious trouble, since it is supported by today's workers.

The NCSC believes that the goal of a 75-year actuarial balance in the Social Security trust funds is a meritorious one. We stand firm in our opposition to major changes in the system in order to attain this goal. However, we would be willing to support the Democratic alternative in order to resolve the remaining one-third or so of the problem. A payroll tax increase can be easily repealed if it proves unnecessary, whereas an increase in the retirement age, as many have said, would have to be phased in over a long period of time.

In closing, let me stress that Social Security is deeply imbedded in the American way of life. The people want it, need it, and could not do without it. One can hardly imagine an America without its Social Security system. Social Security will be only as strong as the American people and their elected representatives want to make it. Those who recognize that the system is woven into the fiber of our society, and that without it we as a nation will weaken, must assure a stable future for Social Security. When that happens, and it must happen soon, we will all be better off.

STATEMENT OF JACK OSSOFSKY, EXECUTIVE DIRECTOR, THE NATIONAL COUNCIL ON THE AGING, INC., WASHINGTON, D.C.

The **Chairman**. Jack.

Mr. **Ossofsky**. Thank you, Mr. Chairman.

My name is Jack Ossofsky. I'm the executive director of the National Council on the Aging, and I appreciate the invitation of the committee to share our organization's views with you.

I request permission for my statement to appear in the record, Mr. Chairman. I will comment on just a few aspects of it.

The **Chairman**. All statements will be made a part of the record in their entirety.

[The prepared statement of Mr. Ossofsky follows:]

STATEMENT BY THE NATIONAL COUNCIL ON THE AGING, INC.

Mr. Chairman, Members of the Committee,

My name is Jack Ossofsky. I am here as Executive Director of the National Council on the Aging, Inc., a private non profit organization now in its 33rd year of service to older persons and the nation. Our members consist of individuals, agencies, organizations and institutions from all sectors of society concerned with or serving older Americans.

In addition to our broad membership constituency we include in our ranks the professional organizations of senior centers, adult day care, senior housing, older worker employment services, rural service providers, and a coalition of over 200 national voluntary agencies which work to enhance the independent living of older people.

We serve as a national resource for information on the implications of aging for the individual and for our society. We undertake research, provide training and develop and test new modalities to assure quality services and expanded opportunities for the aging.

The issues of income maintenance continue to be of urgent concern to the nations older persons and are therefore of major concern to us. We consequently welcome the opportunity to share with you the position of our organization on the proposals promulgated by the National Commission on Social Security Reform.

The National Council on the Aging believes that significant progress has been made on behalf of today's and tomorrow's older Americans by the National Commission on Social Security Reform.

We commend particularly the Commission's reaffirmation of the basic soundness of the Social Security system and its rejection of proposals to make the system voluntary, change its funding mechanism or convert it into a means-tested system. These proposals would have damaged the capacity of the Social Security system to protect the incomes of older Americans and should now be put to rest for all time.

We recognize that the Commission faced and, in the main, surmounted, major political obstacles in reaching the compromise package which it has sent to the President and the Congress. We, however, regret that some of the compromises reached place a considerable and unnecessary burden on the program's beneficiaries. This is particularly regrettable since the public has, in every poll taken during the last several years, continued to reject the options of lowered benefits or reduced cost-of-living adjustments for retired people. They have instead continued to express a preference for increased Social Security taxes over reduced benefits for present or future beneficiaries.

In a national poll conducted by Louis Harris, which our organization commissioned in the summer of 1981, 92% of the American people over age 18 rejected the proposal to reduce benefits of those already retired. In another poll conducted by Mr. Harris on October 29, 1982, 86% of the public opposed such cuts.

In our 1981 study, 72% opposed cutting back the cost-of-living increases presently provided beneficiaries. In a poll conducted by The Los Angeles Times on November 14-18, 1982, 54% of the public opposed delaying or reducing cost-of-living increases.

As recently as January 18-23, 1983 in a poll undertaken by the Washington Post and ABC News, 58% of the public, when asked to choose between benefit cuts and tax increases, preferred raising taxes. Only 21% preferred cutting benefits.

It is significant to note that in that poll, according to the Washington Post of January 27, 1983, "almost nine in 10 said the current benefits paid to retirees are either too low or 'about right' and only eight percent said benefits are 'too high'."

We are mindful of the attempt to ease some of the burden of the proposed delay in the cost-of-living adjustment by introducing a long overdue improvement in the formula used to compute eligibility for older poor persons who receive both Social Security benefits and Supplemental Security Income (SSI). But less than half of the older poor receive SSI and no effort is being made to enroll other eligible poor people into that program.

Even this modest attempt to protect the older poor is endangered by the President's Fiscal 1984 Budget Proposals which recommend a freeze on cost-of-living adjustments for SSI and food stamp benefits. The older poor would be placed in multiple jeopardy if each of the sources of their cash and other income supports were curtailed.

These proposals purport to deal with possible shortfalls of the fund 50 to 75 years from now. Not only are such shortfalls based on highly questionable assumptions, they fly in the face of what Americans want the Congress to do.

The NCOA Harris Poll of 1981 found that 59% of the public disapproved of the proposal to gradually raise the retirement age for full Social Security benefits from 65 to 68. Only some 35% approved. The Los Angeles Times survey of 1982 found that 52% still oppose such an increase in the retirement age. The October 1982 Harris Poll found that 58% of the public oppose this proposition.

The proposals to change the program's benefit formula to reduce benefits to future retirees should also be discarded. In the 1981 NCOA-Harris poll, 85% of the public disapproved of reducing benefits for those retiring in the future. Only 11% approved.

We urge the Congress not to take away another option from those approaching retirement who are burdened by illness or unemployment or whose conditions of work or other circumstances make it necessary for them to retire at age 65 or earlier. We support the positive inducements recommended by the Commission to provide significantly higher benefits to those who retire later than age 65. That is useful for those who can and wish to wait. It is good public policy. But it would be bad public policy to penalize those who can not wait by reducing their options and their benefits.

On October 7, 1982 the Board of Directors of the National Council on the Aging promulgated seven principles by which to measure any changes proposed in the Social Security system. We reaffirm them and urge the Congress to measure its reaction to the Commission's recommendations by them.

We urge the Congress, as it reviews the Commission's recommendations, to reject the option of delaying the cost-of-living increase for the Social Security program's beneficiaries and to enact other available and more acceptable options in its place. We also urge that no freeze be placed on related income supports of the older poor. To do otherwise will accelerate the recent descent of older persons into the ranks of the poor and further impoverish those already there.

The National Council on the Aging has in its possession thousands of petitions signed by individuals of all ages urging the Congress to secure the Social Security program without cutting benefits. A delay in the payment of the cost-of-living adjustment is indeed a cut in incomes of older people, a $40 billion cut over the next seven years according to the Commission's own projection.

In its place the National Council recommends that the Congress move up the already enacted Social Security taxes due to go into effect in 1988 to the point where they produce the needed annual income to the system's trust funds. Not only would this alternative assure the nation's aged that their conditions and concerns are accurately perceived and acted upon, but it would be in keeping with the oft expressed wishes of the young as well.

Several other proposals outside of those included in the bipartisan compromise are being promulgated by some members of the Commission and others still bent on destroying the Social Security compact between our government and the people. The proposals concern changing the program's fundamental and nationally-supported retirement age, that was wisely left in place by the Commission, and the formula used to determine benefits for future retirees.

These principles are:

1. Social Security should continue to provide benefits as a matter of right to all current and future retirees without reduction from current levels;
2. Social Security benefits should be protected from erosion by cost-of-living adjustments;
3. The ages at which one is entitled to partial and full retirement benefits should not be changed.
4. The Social Security system should cover all workers, including government and nonprofit organization employees;
5. General revenues should be available to guarantee payments to beneficiaries when economic conditions require it.
6. Social Security should consider the special needs of married women whose working patterns were determined (during their marriage) by the income and child raising needs of the family. Likewise, it should consider the plight of single women who, under the system as it now operates, are treated in an inequitable manner.
7. Social Security should be removed from the unified budget to insulate it from undue political considerations.

The Commission's proposals came a long way in meeting the test we have laid out. Where they fall short, we believe they can be rectified with minimal dislocation of the rest of the compromise.

It must be remembered that the Social Security system has, as of last year, already been diminished by the elimination of minimum benefits for new retirees, by a reduction of dependent student benefits and a limitation on eligibility for lump sum death benefits. In the last year too many disabled beneficiaries have been exposed to massive and unfair attacks on their eligibility. These and the continuing need for benefit improvements especially for women, the older poor and the "old-old" still await a compassionate response from the Congress. Let us not compound the damage already done to the system by now manipulating the retirement age or the benefit calculation formula.

Let us restore the financial soundness of the Social Security system and the public's reason to have faith in it and in the courage of the Congress.

Mr. Ossofsky. Last year, our Board of Directors adopted a set of criteria by which to judge proposals for social security reform. The seven criteria are included in my statement. Using these criteria, our conclusion is that the Commission and its members made significant progress on behalf of today's and tomorrow's older persons. We commend the Commission and its recommendations to you, with some reservations. We believe their compromise package, given the constraints under which it was developed is a good one. On the whole, merits support.

In one area, however, we feel the compromise places a considerable and, indeed, unnecessary burden on the program's beneficiaries by delaying for 6 months the cost of living adjustment that would come due this July. That one recommendation will result in a $40 billion saving to the trust fund at a cost of $40 billion to the social security system's beneficiaries by 1990.

We consider this a regrettable choice because of the heavy burden this places on vast millions of older persons, and because it runs contrary as well to the views of the majority of the public. In every recent study of the public's attitudes and views of social security and recommended solutions to its current problems, the public has clearly rejected the option of lowered benefits or reduced cost of living adjustments for retirees. Americans of all ages have instead continued to express a preference for higher social security taxes over reduced benefits or curtailed COLA's for present or future beneficiaries.

Our formal statement cites the results of several such polls. We would urge the committee to heed this public view, and seek other available and more acceptable options for meeting the trust funds' needs. For example, we would push forward the recommendations made by the committee that the Congress move up even more rapidly the already enacted social security taxes to the point where they could move the needed increase in income for the system to meet its needs.

We believe the public would, in keeping with views expressed often and consistently, prefer this solution. We are also concerned that the older poor will be inadequately protected from the impact of the COLA delay by the Commission's recommendations to improve the formula used to compute eligibility for supplemental security income.

Bear in mind that more than half the older poor do not receive SSI benefits and no effort is being made to enroll them in the program. Their circumstance is further endangered by the President's fiscal 1984 budget proposals, which call for a freeze on cost-of-living adjustments for SSI benefits and food stamps, increased patient cost under medicaid, higher contributions and lower benefits under medicare, and further reductions in the public housing program. The older poor would be placed in multiple jeopardy if each of these sources of income support or cash benefits are curtailed.

As a minimum, we urge that you assure that no such freeze takes place in the cost of living adjustments of SSI and food stamps. That the other lifeline programs of the vulnerable aged be protected.

We further urge that you mandate a vigorous outreach effort to assure that all those eligible for SSI are informed of their rights and encouraged to use them.

We believe our concerns can be dealt with through modest shifts in the package, with no dislocation in the major thrusts in the program suggested by the Commission for Social Security Reform. Our support for the rest of the Commission's proposals is based on the assumption that no other devices will be introduced that result in a reduction of benefits to today's or to tomorrow's beneficiaries. We particularly urge, Mr. Chairman, that the Congress reject recommendations to delay the age of retirement eligibility from 65 to some older age. Once again, public opinion uniformly rejects this option. But beyond that, a delay in retirement age to 66 would represent a reduction in benefits at age 65 of 7 percent, a delay to age 67 would be a benefit cut of 13 percent, and a delay to age 68, a cut of 20 percent in the retirement benefit.

We urge the Congress not to reduce benefits in this way, and not to take away another option from those approaching retirement who are burdened by illness or unemployment, or whose conditions of work or other circumstance makes it necessary for them to retire at age 65 or, indeed, even earlier.

We strongly support the positive inducements recommended by the Commission to provide significantly higher benefits to those who retire later than age 65. That is useful for those who can and wish to wait. It's good public policy, but it would be bad public policy to penalize those who cannot wait by reducing their options and benefits.

We urge you to protect the system's beneficiaries as well as the system itself to respond to the clear direction of public opinion in seeking solutions to the system's needs, and to restore the public's faith in the system.

We urge, too, that your actions reflect the context of other enacted or proposed budget cuts which impinge on the aging, particularly the older poor.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Long, you are the early bird this morning.

Senator LONG. Well, let me just say to you gentlemen that I assumed the burden of this committee some years go—1977 I guess it was—in passing a tax increase to pay for all these social security benefits. I ran for reelection and that was an issue. I was reelected. Some of those who voted with me on that occasion to pass that tax didn't make it. It wasn't particularly an asset to them to have that stuck on their back, but they had voted the biggest tax increase in history—I don't know whether that was a correct statement or not—but I guess over a period of years for what it was projected for, maybe it was. I hope that you gentlemen here understand that the public has kind of had enough of us just doing this all by raising taxes. At some point they want us to take a closer look at the program. I guess that is what is involved in the recommendations here. I sympathize with everything you have said. I don't take issue with that. But I just hope you understand that at that time even when we were putting on the biggest tax increase in history—that's what we were accused of doing—I never denied that. The taxes just went up, and up again, and up again later on. You wouldn't be here if they had given us a correct estimate. If we had known it was going to cost more than that, we would have made it big enough so you wouldn't have to come back and testify on this bill here. It would have all been taken care of. But it wasn't. If we are going to be asked to go for more taxes, even if it's only a speed-up, moving those forward so they pay those taxes sooner than they did before, I hope you understand that even when we did that we came to a few things here and there that we thought had been—an unintended benefit or something that was not fully justified based on the circumstances as they stood at that time, but I hope you understand that some of us that have gone all the way in looking after the aged people, and voted for a high figure. Even voted to increase it down through the years.

Mr. BRICKFIELD. Do you want a comment on that, Senator?

Senator LONG. Yes, sir.

Mr. BRICKFIELD. OK, that's true. The 1977 increases were going to save the system for 50 years so we were told. Fifty years lasted about—

Senator LONG. I thought it was about 70. I thought we took care of it as far in the future as we could look.

Mr. BRICKFIELD. Well, President Carter, when he signed the bill, said it would preserve the system for 50 years. Fifty years turned out to be 5 years. Not even that. As you said just a moment ago your decision was based on wrong figures and wrong estimates. This is one of AARP's major concerns, today. The Commission's figures don't add up. The package is not likely to yield the $168 billion that the Commission claims it will. This is a concern of ours.

The near-term solution is unlikely to hold. I was reading Social Security Commission Svahn's testimony with respect to what is being suggested by the Social Security Reform Commission. It must be remembered they were at it for a year, Senator. The Commission met once a month, and the staff was at it day in and day out. After all that time, they are coming in with a barebones solution. That's what it is. It's a barebones solution. There isn't a great deal of reform in this package. They are principally increasing taxes and cutting benefits.

We say that if you translate the $168 billion—and I understand the estimate has been trimmed to $165 billion now that will only provide for a reserve ratio in the trust fund of something like 2 months. For the last 3 years we at AARP have been very much concerned that a two months' reserve isn't enough of a cushion. Commissioner Svahn in his testimony went on to say that the reserve could drop to 11 percent, which is about 6 weeks reserve. Now is that the kind of a solvency Congress seeks as we move along?

We are also very much concerned that the $165 billion figure includes what we would call funny money. Look at the figure for the military wage credit. OMB said that the credit may only be only $6 or $8 billion. But somehow or other the estimate was pumped up to $15 million, and then to $18 billion by the Commission. If it isn't $18 billion, but something less then the aggregate $165 billion figure will not materialize.

Senator LONG. Let me just tell you this. I have voted for every big increase, every increase whatever the name, since this program—since I came here 34 years ago. I have voted for every tax to pay for it. Gotten out there on that floor and put the pressure on other guys, twisted people's arms to make them vote for taxes to pay for it.

Let me just tell you the person who is for the program now. I am strong for the program. I wasn't on the Commission to make this recommendation, but as a person who has been involved in all that—some of us have gone about as far as we can go in trying to solve this whole problem by just voting for more and more taxes. Now there comes a time when—you have your polls. You read your polls. I pay for some myself and get a pretty good estimate of what people think. If I had to say where I am going to vote as a fellow who had voted for all this, then it comes on the side of voting for all these taxes. We've got people on this committee who have confided in me that since the day they came on the committee have never been pushed do anything but vote for more taxes and less benefits. That's not a happy thing for a politician to do—keep voting for more taxes and less benefits.

But the mistake was, I think, that there were some people who gave us some poor estimates. God knows they gave us a poor estimate back when they told us we could vote for that automatic cost-of-living increase, plus a 20-percent across-the-board benefit for everybody with nothing to pay for it except an optimistic assumption.

You know, since that time, there has been some burden on us to vote for taxes, and vote for the type recommendation you are talking about here. Mind you, I appreciate the fact that you are here giving us the best advice you know how to give us. I hope you understand our problem.

Mr. OSSOFSKY. Senator, and Mr. Chairman, if I may. I understand the point you make, Senator. The reality of the situation is that there is much that all of us are compromising in this package, and that it doesn't leave a very pleasant flavor in anybody's mouth. The reality is that the estimates you were given at one point were based on a certain logic of our economy in the future of our country, which has gone off track. The estimates made by those actuaries were the best of circumstances without anticipating what would happen to an inflation and a depression at the same time in the country.

The fact of the matter is that those votes that you passed lifted millions of older Americans out of poverty. They were a good thing, and a right thing to have done. They were not wrong at all.

What is wrong is what has happened since then to our economy, pushing more people into unemployment, more takers out of the systems, and less contributors to the systems. As the Commission itself vigorously stated in its bipartisan statement, the system as such is sound; it's the economy around it that is sick.

Now under those circumstances, Senator, I'm not sure that I can fault those who made the predictions. The fact remains that what we have got to do is take a look at the context in which we are asking people to pay higher taxes and whether indeed this kind of tax is acceptable, whereas many other taxes are not acceptable to the public.

Senator LONG. Well, I hope you understand, though, from my point of view they should have taken into account the fact that you are going to have some recession from time to time. If they had, we would have had enough money.

The CHAIRMAN. I think the witnesses on the first panel indicated the problem those of us on the Commission had. I see the AARP—you say you are opposed to the payroll tax increases in the package, but you are certainly not opposed to new taxes. You recommend $223 billion in new taxes, as long as they don't affect you. You would reduce the 1983 income tax rate cut to 5 percent; you would modify deductibility of interest on consumer credits; you would have a windfall profits tax on natural gas; you would double the excise tax on liquor, on beer and wine; maintain the exise tax on cigarettes; repeal certain oil and gas industry tax preferences; and modify treatment of employer paid health insurance premiums. A couple of those items are good tax policy, but you set the record so far for tax increasing. And you are only the first witness. [Laughter]

The CHAIRMAN. The tax increases in the consumers package are chicken feed compared to $223 billion——

Mr. BRICKFIELD. Well——

The CHAIRMAN. You will get a chance to answer. Let me address the $223 billion that you are trying to add to the tax burden of the American people. I think therein lies the dilemma that the Commissioners faced. Everybody had a great idea as long as they didn't have to contribute. For example, my mother didn't think the COLA adjustment was a very good idea. The new Federal employees don't like to be brought into the system and the business people don't like the acceleration of taxes.

Now didn't the AARP support the 1977 tax increase?

Mr. BRICKFIELD. To be very honest, Senator, we remained silent on it. We didn't like it. We thought it was wrong.

The CHAIRMAN. Were you opposed to it?

Mr. BRICKFIELD. No; we were not opposed to it.

The CHAIRMAN. You remained silent?

Mr. BRICKFIELD. Yes, sir.

The CHAIRMAN. You thought it was wrong?

Mr. BRICKFIELD. We thought it was wrong. We tried to make changes in 1977, but we were not successful. Then people told us, "What are you going to do? Go out on a limb and be against the only remedy the legislative process produced?" So we remained silent.

But we are not doing that today, Senator, as you well know.

The CHAIRMAN. No; you keep suggesting you are going to come up with a package. If this is the package, how many sponsors do you have?

Mr. BRICKFIELD. Well, we find major flaws in this, Senator.

The CHAIRMAN. I mean if yours is a better package——

Mr. BRICKFIELD. We haven't taken a head count but there is a great deal of sentiment in support of many of our provisions. We are not offering our ideas as a package. We are suggesting this list of tax sources as options for ways to fund the system. We recognize that you have to pay the social security bill. The bill has to be paid one way or another. Now what we are saying, Senator—and I think this is most important—is that after 45 years the system should be restructured. We have less than four workers for each beneficiary.

The CHAIRMAN. Let me go ahead with other questions. I will come back to that later.

Mr. BRICKFIELD. But I just want to say as long as I am on the record that payroll taxation in and of itself is no longer the sole answer.

The CHAIRMAN. Well, as I understand it, AARP opposes the acceleration of payroll tax increases because you fear it is going to create some intergenerational conflict. But in July 1981, during Social Security Subcommittee hearings on social security financing, Mr. Hughes of AARP stated that he didn't think there was any intergenerational conflict, and that social security was a good buy for young people.

Now we are talking about an acceleration of 0.3 percent which will be offset by a refundable tax credit in the first year. I don't see how in 2 years your views could have changed so dramatically.

I'm not quarreling with the opposition. The AARP is a highly respected organization. I'm just suggesting that we are trying to save social security and doing so requires consensus. I appreciate the comments of the other witnesses, particularly the statement of Mr. Rourke. As I understand your statement, you are willing to stay in the boat unless we start knocking the bottom out of it. Is that correct?

Mr. ROURKE. That's right.

The CHAIRMAN. I think that's a constructive approach. If we start saying, well, we are not going to bring newly hired Federal employees into the system, or we are not going to accelerate the payroll tax, then you want us to take another look at the COLA delay? Is that correct?

Mr. ROURKE. Yes.

The CHAIRMAN. You would agree that although this isn't a perfect package, it's the best that anybody has come up with.

What about extending the retirement age? Longevity has increased considerably since social security was enacted. Could I have your opinion on that?

Mr. OSSOFSKY. We are opposed very strongly to that, Senator. As my statement points out, the reason for that is that it removes an option for people who don't have an option. Those people who in spite of extended longevity cannot continue an onerous or heavy work.

In some countries, for example, they have different figures for——

The CHAIRMAN. You are opposed to that?

Mr. OSSOFSKY. Yes, sir.

The CHAIRMAN. Mr. Rourke?

Mr. ROURKE. We are opposed to it, too.

The CHAIRMAN. You are opposed to it?

Mr. BRICKFIELD. We are opposed to it, Senator, but we have a solution to suggest. I think that is what you inquired about when we first started today's hearing. We think that rather than raising the retirement age——

The CHAIRMAN. That's in your extended statement. Mr. Pepper is opposed to raising the retirement age to 66 and he will be 83 in

September. He doesn't make a very good case for that position. They sent the wrong person. [Laughter.]

They should have sent one of the 30-year-old Members of Congress to make that recommendation.

Mr. **Brickfield**. It would under our recommendation.

The **Chairman**. Mr. Chafee.

Senator **Chafee**. Thank you, Mr. Chairman.

I have trouble with the presentation here of Mr. Brickfield. He's against raising payroll taxes. You are against cutting COLA's, and taxing benefits, and somehow you think you are going to raise this money through broadly based tax resources. But the country is running at $150 to $200 billion deficit. If there are any dollars out there, I think we had better pick them up and try and cure the economy as Mr. Ossofsky was concerned about.

Mr. **Brickfield**. Senator, what we are suggesting is, at least in principle, already in part of the Commission's package. Take, for example, the taxation of benefits. That's in there. If a person has an adjusted gross income of $20,000——

Senator **Chafee**. These answers have got to be brief.

Mr. **Brickfield**. The revenue is earmarked Senator. Income tax revenue is earmarked for social security. That's what the Commission's proposal does. It would put that tax money into the trust fund. Now we are saying why not earmark——

Senator **Chafee**. You are against that.

Mr. **Brickfield**. Pardon?

Senator **Chafee**. You are against that.

Mr. **Brickfield**. No; we are not as a concept. We support earmarking revenue from tax sources other than the payroll tax.

Senator **Chafee**. It's in your statement that you think that this applies a means test.

Mr. **Brickfield**. That's why it is very hard to give a short answer. The trouble with the taxing of social security benefits is, at a minimum, three-fold. First of all it does tax benefits. It's a benefit cut. Second, it puts in a means test.

It sets a wrong precedent for social security. It puts a burden on only 11 percent of the people. If everybody is going to share the burden or share the pain then the tax should be broad based to include everyone. Earmarking a portion of revenue from the income tax—earmarking it for the trust fund—is a way to go. We say you should do that in other areas, too. We set forth a list of options.

Senator **Chafee**. Well, one of the facts that we have before us—this is, as you recognized, a very, very difficult situation that we are faced with. I, for one, am committed to preserving this fund so that it will be there for future generations as well as present generations. I don't think it is satisfactory to say, as Mr. Ossofsky does, that the only thing that is wrong is that the economy isn't performing right.

Now if you have got a solution to make the economy perform right, we would be glad to hear it. But it isn't enough to rail against Reaganomics and say, but for Reaganomics everything would be hunky-dory in this country.

Mr. **Ossofsky**. Well, you may not consider it enough, but I consider that to be a very apt statement, Senator.

Senator Chafee. All right, tell me how we can straighten out the economy because we are also involved with that in this committee too.

Mr. Ossofsky. Well, I don't believe our problem, Senator, is just a matter of insufficient resources for social security. I believe it is what we have done with national resources in the country as a whole. One of the solutions that is not part of this package at all—it has been discussed many times and is part of the solution used in much of the western world—is a tripartite funding of social security where general funds of the Government are injected into the system as well. We don't even talk about that option because we are faced with a terrible deficit. The cause of that deficit is having given away significant tax revenues of the Federal Government, increased enormously the funding for military purposes and decreased the funding for human services.

Senator Chafee. Well, that can be debated. If that would solve all the problems of the country, that would be nice if we could do that.

But let's just look at what has happened to benefits for the elderly as we compare them to benefits for other people. Since 1970, the CPI has gone up 164 percent; benefits for the elderly have gone up 227 percent. Now I think—those are social security benefits. Social security, period.

Now it seems to me that the social security beneficiaries have done well. As a matter of fact, we had testimony the other day—I can't remember the exact figures—but basically it was that in the past 10 years the purchasing power of those in social security has increased 48 percent on two bases.

Mr. Ossofsky. From what base, Senator?

Senator Chafee. From whatever the basis was.

Mr. Ossofsky. But, you see, we have in the process moved out significant millions of people from poverty. We were dealing with about a fourth of the aged below the Government's own level of poverty. We have reduced that until the last 2½ years, when the number of older people are falling again into the poverty brackets.

Now the fact of the matter is that that infusion simply rectified serious problems which our whole economy faced because a massive segment of the population was terribly pressed by poverty.

Senator Chafee. Well, at the same time wages have gone up nearly less than half that, just about half of that. My time is short here. All I am saying is that it would be extremely helpful if we could have constructive suggestions that are going to meet this problem. We know we have got a problem.

I agree with you, Mr. Brickfield, that I think the projections we have had are low. I think they are wrong. I think we are in a far deeper problem than this Commission has been told. I didn't serve on the Commission, but I think that the statistics are even worse than those that came before the Commission.

Thank you.

The Chairman. Mr. Armstrong.

Senator Armstrong. Mr. Chairman, I'm grateful to the witnesses for their testimony and also to each of their organizations for the contribution that they have made to the written record of this proceeding. And I have reviewed quickly the written statements, and I encourage others to do so as well.

I have two or three questions. I would like to ask Mr. Rourke whether or not his support of the Commission's recommendations is conditioned upon his belief in the actuarial figures. In other words, if you were to come to the belief that, in fact, the Commission recommendation would not solve the problem for a prolonged period of time, and that we might be back here in 1984 or 1985 or 1986 to revisit this, would you still support the Commission's plan?

Mr. **Rourke**. At the present time, I support the Commission's plan as it is. Even if something happens to it later on, it's the best thing we have at this time, and I think we need it.

Senator **Armstrong**. Mr. Ossofsky.

Mr. **Ossofsky**. Yes, I would say the same.

Senator **Armstrong**. Even if you had reason to think that we might be back here in 1985?

Mr. **Ossofsky**. Yes, that wouldn't surprise me very much. I don't know how long one measures the long-range future in social security.

Senator **Armstrong**. Until after the next election anyway.

Mr. **Ossofsky**. I spent 15 years as a pension plan administrator——

Senator **Armstrong**. Mr. Brickfield, if you had reason to believe—well, you have already testified that you do have reason to believe that we might be back here in 1985.

Mr. **Brickfield**. Yes, we think the Commission's present financial numbers don't add up, Senator, and we could well be back in 1985.

Senator **Armstrong**. Could I ask Mr. Ossofsky—you have mentioned that in your view Congress erred in giving away a substantial portion of Federal tax revenues. And while I don't entirely agree with that characterization of our action, I am wondering if you would care to state for the record what you believe an appropriate share of the GNP is to be in tax revenue?

Mr. **Ossofsky**. I'm not sure I have a rule of thumb for that, Senator. I don't know that it relates only to GNP. I'm looking at what happened to the deficit.

Senator **Armstrong**. What would you relate it to?

Mr. **Ossofsky**. I'd relate it to what the needs of the country are, the resources available from those who are in the best position to meet those needs, and some equitable balance fashion of developing a tax system, and an elimination of a variety of loopholes that have been given over the years that many on this committee questioned over the years.

Senator **Armstrong**. But it is your general view that tax levels are simply too low?

Mr. **Ossofsky**. My general view is that tax levels, particularly corporate tax levels as enacted by the Congress in the last 2 years, are still much too low.

Senator **Armstrong**. Could I ask Mr. Ossofsky if you have reviewed the incentive proposals to encourage people to work longer that have been submitted by AARP? And if so, what do you think of them?

I regret having to ask, as others have, that you be brief.

Mr. OSSOFSKY. Oh, that's fine. I believe that we ought to provide as many incentives for people to be able to continue to work in the labor force as possible, positive incentives. Indeed, what I am suggesting as well is that the recommendations of the Commission are sound because they provide a higher benefit for those who work longer.

My concern is those people who can't work longer either because of the difficulty or onerous nature of their work or illness.

Senator ARMSTRONG. Well, in general, do the AARP incentive proposals fulfill that need? In other words, do you support them? Does your organization support them?

Mr. OSSOFSKY. I support those positions that AARP has taken to encourage more people to be able to stay in the work force.

Senator ARMSTRONG. Thank you.

Mr. Rourke, how about your organization? The same? In other words, do you support in general at least the AARP proposals to encourage people to work longer?

Mr. ROURKE. Well, we would support the proposals which do provide incentives and encourage people to remain in the work force longer. What we would not support would be measures which might be punitive upon those who were, as Jack said, unable or unwilling to continue working. In other words, actuarially reduce benefits of a greater level than they already are for people who retire at 62.

Senator ARMSTRONG. I think Mr. Brickfield is eager to acknowledge his appreciation for the support of the other two organizations. I saw you were straining to say something.

Mr. BRICKFIELD. Well, I can't help but think, Senator, that we are all against raising the retirement age to 66.

Senator ARMSTRONG. Not me.

Mr. BRICKFIELD. I'm talking about the members of the panel.

Senator ARMSTRONG. Oh.

Mr. BRICKFIELD. And we are against cutting COLAS. But my organization, at least, isn't just saying, don't cut them. We are recommending what we think are viable options. We support postponing retirement but on a voluntary basis. I would like to bring to the attention of the members of this committee that our recommended system is in part already in place. Today, under social security if you continue to work beyond 65, you can earn bonuses toward your social security benefit. It's there in the law today. The trouble with the provision is that the increase is actuarially too small. The bonus should be somewhere around 8 or 10 percent instead of today's 3 percent. We say that this option should be pursued, and that this is the way to go.

The CHAIRMAN. What does that cost?

Mr. BRICKFIELD. Pardon?

The CHAIRMAN. How many billions does that cost?

Mr. BRICKFIELD. Well, it's in the——

Senator ARMSTRONG. Mr. Chairman, I see that my time has expired. If I might ask the indulgence of the Chair for maybe another 30 seconds, let me just say that the specific proposals to which Mr. Brickfield refers appears on page 43 of their extended statement. And I really do commend it to all members because it's a part, in my judgment, of the final solution, and certainly ought to be.

I also want to say that AARP has, I think, really performed a valuable service by not only telling us what they are against, but also what they are for. And while I don't agree with them entirely, I think it's useful.

Finally, Mr. Chairman, I would ask, just since the issue got raised, that I might be permitted to insert in the record of this proceeding a brief summary of the change in the tax burden of this country showing the rising share of the gross national product which is accounted for by taxes, even after the alleged giveaways of large Federal revenues. The fact is taxes are still going up. They are not going down even after the rate cuts which have been put into effect. And the reason is because they are insufficient to offset the large projected tax increases that are already on the books. Social security taxes quadrupled in the 1970's. They will triple again in the 1980's even if we do nothing about the recommendations of the National Commission on Social Security Reform.

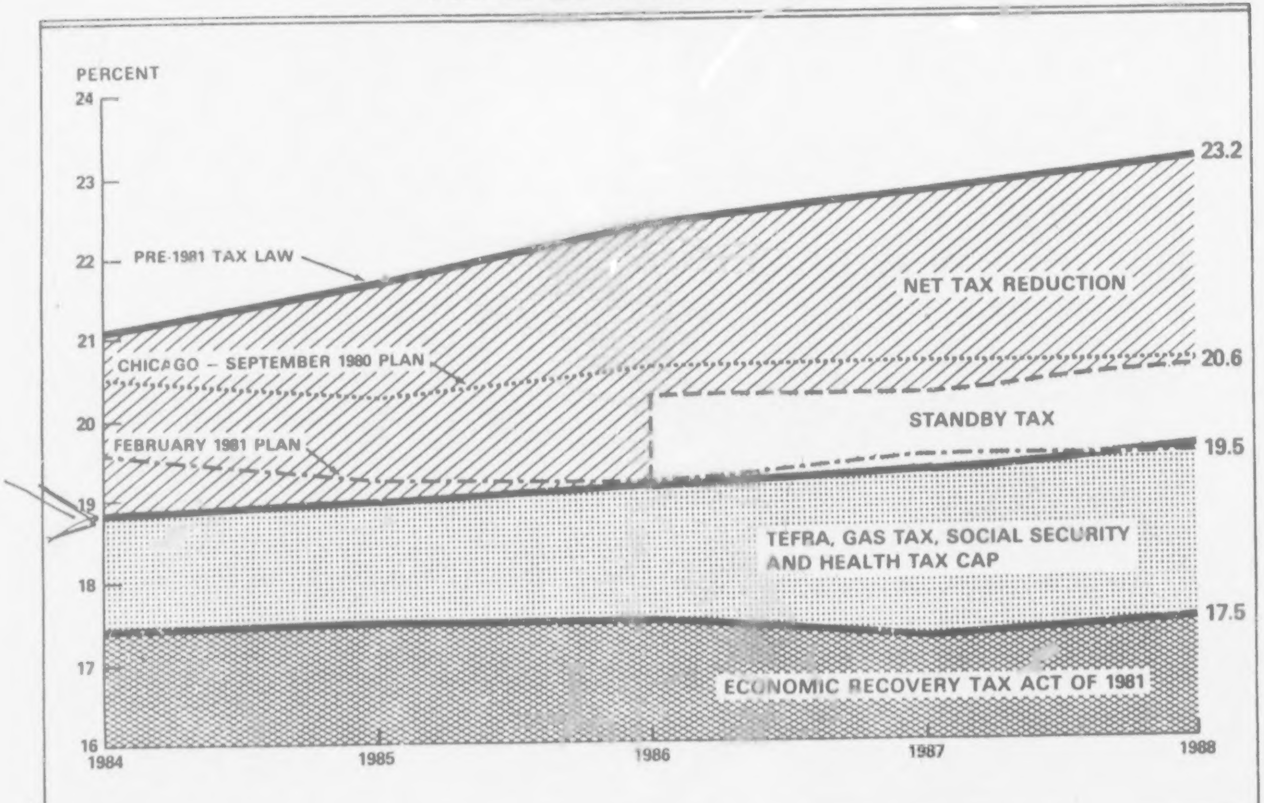
And so when you add up everything—gas tax, sales tax, cigarette tax, whiskey tax, income tax, and social security tax—the total burden as a percentage of GNP is rising; it is not declining. Now it's arguable where it ought to go, but I would at least like to have that in the record.

The **Chairman**. Thank you.

[The chart by Senator Armstrong follows:]

CHANGES IN TAX BURDEN AS A SHARE OF GNP

SEN. ARMSTRONG



Senator MITCHELL. Would the Senator yield for just one comment or question?

Senator ARMSTRONG. Yes.

Senator MITCHELL. You've identified all the areas in which taxes have been raised, the areas in which taxes have been reduced—is there a single area in which taxes have been raised that is related to ability to pay? And is there a single area in which tax has been reduced that is not related to ability to pay?

The CHAIRMAN. Withholding on interest and dividends. [Laughter.]

Senator MITCHELL. I've heard you say that is not a tax increase, Mr. Chairman——

The CHAIRMAN. Right. [Laughter.]

Senator MITCHELL [continuing]. Many, many times.

The CHAIRMAN. The ability to pay is the part I heard. [Laughter.] Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, may I thank each of the members of the panel for very thoughtful statements. I was struck, Mr. Rourke, by your remark that we are also concerned that the 3-percent inflation rate which triggers a COLA will not be reached this year. I think the members of the committee might want to note this. It almost certainly will. There is a shave of a chance, but it will be about 3.2.

But I would like to point out that we are proposing a 6-month COLA delay with respect to an inflation rate that is two-tenths of 1 percent above that level when there is no increase at all. It's not regarded as significant if 3 percent and below. So if we are picking a year to do it, it's the best year we have had in a long time.

And the other thing is to say—and this I would address to Senator Chafee—the long run can always look ominous, indeed, and as Keynes said, in the long run we are all dead. But we have some new figures from the actuaries, which were sent to us by Mr. Svahn, about the status of the OASDI trust fund at the end of each year between now and 1992. And we are not in very robust shape this year. We will have, at the end of it, $26 billion. But by 1992, the actuaries on the mildly pessimistic IIB projection have a tenfold increase. Already at $257 billion. I mean as best as you can forecast. And 10 years is not a bad forecast to make.

We can get this system back in shape a lot faster than we are going to get medicare in shape. The forecasts we have are really quite reassuring to this point that Mr. Rourke was making about this decade, the middle term and the long run. Does that make you feel any better or less worse?

Senator CHAFEE. Well, maybe I'm just being a gloomy soul, but we have been through these predictions so many times, and they always turn out to be wrong on the low side. And as I understood the statistics that just came in, they made the situation far more serious than what the Commission was working with. Am I not correct on that?

Senator MOYNIHAN. But may I also say that there is a demographic base. In the 1980's, about 600,000 persons a year turn 65. In the 1990's, it's about 300,000. Some things that you really do know, those are events that have happened and of which you can be a little more confident.

That's all I wanted to say.

The CHAIRMAN. Thank you, Senator Moynihan.

Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Gentlemen, I appreciate your testimonies and the contribution you are making to the record here also, as pointed out earlier. But what I would like to ask you is how do you feel about the idea that has been floated around by several different Senators, myself as one of them, that we liberalize people's ability to invest into their own IRA with an exchange—in other words, if they a get a bigger tax rate on the front end, say, that they could go up to 50 percent of giving up social security benefits in the future for exchange for a bigger tax deduction now by investing into their own personal IRA. Does that idea have any appeal to your associations?

Mr. BRICKFIELD. Well, we have given some study to it, Senator. And we are certainly for encouraging workers to invest in IRA's. We just hope, though, that if this Commission package goes through that their IRA income doesn't trigger the taxation of their social security benefits and cause them to lose benefits. That's one of the problems with the Commission's proposal to tax benefits—it might discourage people from saving for their retirement.

And one other thing. The observation was made earlier that this year the COLA may be only 3 percent, but you have got to remember next year and the year after that. We are talking about a COLA that's in place for a long time. We are not just talking 3 percent this year.

I remember Mr. Greenspan telling me in front of a number of people that the economy is very volatile. And who knows what it is going to be in 1990. So please don't take 1 year of the COLA at 3 percent and presume it is all right for the years ahead as well.

Our position, very simply, is that because there is a declining ratio of workers relative to beneficiaries, the system can no longer rely solely on just payroll taxes. You have got to get to other nonpayroll tax sources of income.

Senator SYMMS. Well, I guess maybe I didn't make myself clear on my question. What I am talking about is, let's say, for example, that right now that each American can invest $2,000 a year into an IRA. If we were to allow them to invest more if they were able to, into the IRA, in exchange for down the road a lessening of the benefits that they would get back from social security up to 50 percent——

Mr. OSSOFSKY. Senator, I would tell you categorically that our association would not support that idea. At a time when we are seeking to reinforce the income to the social security trust fund, and develop one national program for all——

Senator SYMMS. No. I'm not talking about letting them off from paying their social security tax. I'm talking about allowing them to trade back to the Federal Government the freedom, if you will, to if they choose to take some of their money and invest it in an IRA that they are saying they will take reduced benefits in the future. And that they go into a contract on that.

Mr. OSSOFSKY. I understand, but that still raises serious questions about the stability of the social security program, its benefits, some clear-cut indication of what your benefits can be in the future.

It makes it difficult for people to plan.

Senator SYMMS. Well, it would ease the burden. You recognize the problem we have of the chain letter system of the people paying in and people taking out. And the continual increase in the number of people taking out vis-a-vis those that are paying in. So if you don't do something down the road to reduce the drain on the system, what do you do when you get down to where there is only one and a half or two workers——

Mr. OSSOFSKY. I would think that it would be very useful to find inducements for people to be able to get more IRA's. I think that's a useful system. It undergirds their economic security. But I would do that quite separate and apart from anything related to the social security system.

Senator SYMMS. Sir.

Mr. BRICKFIELD. Well, you know there is a proposal to tax benefits based on adjusted gross income. And if an IRA goes through the years, 20 years, 30 years, the adjusted gross income may be high enough that it would work a penalty, Senator. And you have got to think these things out long term.

Senator SYMMS. Do you favor this tax in the benefits?

Mr. BRICKFIELD. No, we do not.

Senator SYMMS. Uh huh.

Mr. BRICKFIELD. Absolutely not. But we are suggesting options for funding this part of the Commission's package.

Mr. ROURKE. First on the IRA's I would agree with Mr. Ossofsky's statement completely. I think this is a very bad thing to get into. I think it's a general crack in the door to——

Senator SYMMS. Well, it would encourage savings. You can't think that's bad, if social security taxes don't go into investing in new plants and equipment. We would all agree on that, I hope.

Mr. ROURKE. Well, it's opening the door to harming social security without any question.

Senator SYMMS. Thank you very much.

I see my time has expired. Mr. Chairman, if I could just make one observation, I would just say to these genetlemen that I do appreciate them being here. I just spent the last 10 days during the break in Idaho holding town meetings. And not only there, but in other parts of the country that I have been, I find senior citizens attend those town meetings at a higher percentage than any other group. Most of my audiences would be two-thirds senior citizens. And I hardly found—I found 1 person out of 1,250 that I personally visited with that week that wasn't willing to give up an increase in his COLA in exchange to save the social security system. And yet I find those of you that represent these people here in Washington all on the bandwagon that we can't have a freezing of the COLA's. I have had many of them say, "Why don't you even reduce our benefits?" I said, "We are not talking about reducing your benefits. We are talking about keeping your check the same for a time period until the wages of the workers can catch up with the benefit levels of the recipients." And to a person they agree with this. Yet in Washington, once we leave the rest of the reality of the country and come back to this 7-square miles somehow anyone that talks about having a leveling off or a slowdown in the rate of increase says it is somehow cutting benefits.

Senator CHAFEE. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

Would each of you tell me, do you support the inclusion of new Federal workers in the social security system?

Mr. OSSOFSKY. We do in the National Council on the Aging. Yes, sir.

Mr. ROURKE. We are accepting the package as it is.

Mr. BRICKFIELD. Senator, we would support it but only on voluntary basis.

Senator BRADLEY. On a voluntary basis?

Mr. BRICKFIELD. Yes. If you are going to bring in new hires under the social security system, you have to provide safeguards both for their social security and their supplemental pensions, otherwise they would not have adequate retirement income.

Senator BRADLEY. OK. Let me ask if you would support gradually phasing medicare out of the social security system and placing it in general revenue financing?

Mr. OSSOFSKY. I would hesitate to say "Yes," but only on the basis of the current history of reduced benefits that are constantly being developed when it is separate. I would be very worried about doing that at this point.

Mr. ROURKE. I would like to pass on that one.

Senator BRADLEY. You don't want to take a position?

Mr. ROURKE. That's right.

Senator BRADLEY. OK.

Mr. BRICKFIELD. No, we would be against taking medicare out of the social security system. Workers now pay payroll taxes that entitle them to medicare. If you switch to general revenues, you run the risk of a means test.

Senator BRADLEY. Could you tell me, please, Mr. Brickfield, what is the difference between taking medicare out of the system and having it financed with general revenue tax dollars, and dedicating $223 billion from general revenue funds to social security?

Mr. BRICKFIELD. Several reasons. One is, we are not here today suggesting——

Senator BRADLEY. No, what's the difference? The difference in time.

Mr. BRICKFIELD. Our proposals are aimed at the short term, Senator, measures which will have a temporary existence. I think what you are suggesting is a long-term, permanent change.

Senator BRADLEY. You mean the tax dolar you see coming into the system over the next—for example, you have recommended you reduce the rate cuts to 5 percent. You are saying do that only until 1987 and then have another 5 percent cut?

Mr. BRICKFIELD. Until 1989.

Senator BRADLEY. And then have another 5 percent cut?

Mr. BRICKFIELD. No.

Senator BRADLEY. See, the thing I am saying is that your tax recommendations are permanent.

Mr. BRICKFIELD. No, they are intended to be only temporary.

Senator BRADLEY. When are you suggesting that you reduce the excise tax on liquor and beer?

Mr. BRICKFIELD. It would be short term; and it could be for 6 or 7 years.

Senator **Bradley**. So, then, you are supporting a decrease in taxes of 5 percent in 1988?

Mr. **Brickfield**. Yes, because we are advised by the actuaries and by the Commission that come 1990 the system is going to be no longer in a deficit situation.

Senator **Bradley**. So all these general revenue tax dollars that you have recommended go into the social security system would all be retracted at the end of 5 or 6 years?

Mr. **Brickfield**. Yes.

Senator **Bradley**. In other words, in 1988 you would have a 5-percent cut and you could then deduct your consumer credit. You could then have half what you pay on taxes for liquor and cigarettes. Is that correct?

Mr. **Brickfield**. What we are saying to get over the short term, Senator, is that you ought to earmark special taxes—not payroll taxes—to meet the short-term deficit. That money should be paid directly into the social security trust fund to get the system through the remainder of this decade.

Senator **Bradley**. All right.

Mr. **Ossofsky**. Senator, if I may respond to your question a little bit fuller. In the dollar terms, it may not appear to be a difference. Part of what has been suggested by the Commission is removing the social security system from the unified budget. Indeed, to looking at setting up a separate entity for the system.

It would be quite different if that system were paid a lump sum of dollars from the general revenue resources than keeping it within the Department of Health and Human Services where that program becomes a different entity and faces the kinds of cuts in benefits that are now being imposed for a variety of other reasons than the integrity of the social security system.

Senator **Bradley**. All right. Your answer is the answer that I have heard from a variety of senior citizens' meetings that I have held. That is that you don't want them taken out because you are afraid that it is easier to get at if it is not an entitlement.

Mr. **Ossofsky**. That's correct.

Senator **Bradley**. Could each of you in very brief form, since each of us is asked in our own State to do this—could you give me one statement as to in your view what social security is all about? I mean what's the purpose of social security?

The **Chairman**. In five words or less.

Senator **Bradley**. In five words or less. We will give them 30 seconds.

Mr. **Ossofsky**. To undergird the economic security and health security of older Americans.

Mr. **Rourke**. I would agree with that. [Laughter.]

Mr. **Brickfield**. And I would add, Senator, to help the elderly maintain their purchasing power.

Senator **Bradley**. Am I finished, Mr. Chairman?

The **Chairman**. That's already eight words. [Laughter.]

Go ahead if you need to.

Senator **Bradley**. Well, I would suggest that in addition to protecting the elderly we have to consider some effect of those who are paying into the system, and that it's important to look at the community that social security expresses. And if you take from your basic statement of purpose how the solution should be achieved, you should do everything but ask the elderly to make any sacrifice whatsoever because the purpose of the system is to protect the elderly. And I think that if you look at social security that way you come out as you have, Mr. Brickfield, in recommending the solution. You come out that it is in a sense an expression of community and you have to share in the sacrifice.

And I think that as we are asked in 30 seconds on TV to tell the listening audience what social security is all about, it helps us in considering your own point of view to see how you have viewed it.

The CHAIRMAN. Mr. Wallop.

Senator WALLOP. Thank you, Mr. Chairman.

I appreciate the response to Senator Bradley's questions as to what the purpose of social security is because each of you has just defined why there should be such a thing as a means test. If it it is to undergird the elderly, undergird the health and purchasing power of the elderly, or it is to assist the elderly in maintaining in each of those instances—and I believe that's right. That is what it originally set out to do. So why, just taking the outside extreme, would the retired chairman of General Motors with an income in excess of a couple hundred thousand dollars a year need $1,000 a month from the Federal Government when somebody undergirding it is more important?

Mr. BRICKFIELD. Senator, the chairman of General Motors doesn't need it. But that is an extreme example. You have got to remember that of the 25 million Americans over 65, 7 million of these people are below or near the poverty level. That is why across-the-board cuts in COLA's, do not impact evenly across the board.

Senator WALLOP. But, Mr. Brickfield, I am not talking now about across the board. I'm talking about your definition, the one that you and others at the table have supplied, we are not talking about across the board, we are talking the phrase "means test." And the chairman of General Motors is an extreme. Where does it stop being an extreme?

I mean in terms of trying to do for those 7 million people you are talking about who are at or below the poverty level, surely there is some kind of a philosophical base in there where those with a lot upon whose security and health do not depend on social security——

Mr. OSSOFSKY. As is traditional in these halls, one often asks for an opportunity to extend those remarks in the record. In five words or less it is hard to give you a thoughtful answer.

Senator WALLOP. Well, I believe that the record will remain open and I would like to see an extension of the remarks.

Mr. OSSOFSKY. The reality is, Senator, that among the critical things that should have been added is as of a matter of right. And it's true, Senator Bradley, that among the other things that need to be considered is that we are protecting not only older people, though they are the majority——

Senator WALLOP. Hey, this is my question.

Mr. OSSOFSKY [Continuing]. But many younger people. The answer to your question is that they should not be means tested. It demeans people to have their programs means tested in the manner you described.

Senator **Wallop**. I haven't described the matter, Mr. Ossofsky. Please understand that I am just asking a philosophical question. And when you answered a question, you just simply said while it should be there——

Mr. **Ossofsky**. But the means testing—who should receive economic undergirding is in itself a demeaning—the question leads to a demeaning answer.

Senator **Wallop**. I would just have to say I disagree with that. I think that your dignity as somebody at or below the poverty level is far less demeaned by having somethings at or above the poverty level as it is below. And I think that there are a lot of Americans that agree with that thinking.

Let me talk to another area of philosophical inconsistency, and see if there isn't a reason why. You all stated hesitancy, reluctance, or opposition to the idea of advancing the retirement age. And yet in each of the other answers that you give to a variety of things you talk about actuarial realities. I believe, Mr. Brickfield, that you said the late retirement bonuses that are there are actuarially too small. I mean how can you be actuarially dedicated on one side and actuarially ignoring the process of the progress of life in this country, which is the fact that people do live longer and are healthier and stronger than they were when the system was put in place? Don't you have to take your actuarial attitude philosophically straight across the board?

Mr. **Brickfield**. We don't think we are inconsistent, Senator. We are against moving the age for full benefits to age 66 because purely and simply it's a benefit cut. There is a way of better addressing the problem. We are saying that a solution is already in place in the statute, but unfortunately, the amount of benefits that one can earn, which is now pegged at 3 percent, is actuarially not enough. They should be increased to 8 or 10 percent to encourage workers to delay their retirement.

Senator **Wallop**. Well, Mr. Brickfield, actuarially we live now to 74 years old whereas before when the retirement system was put in place we weren't expected to live as long as the retirement age. It was a bonus if you got to be 65.

Mr. **Brickfield**. This actuarial adjustment would help, Senator. This would keep people in the work force, which is, as I understand it, the policy of the Congress. Only a few years ago Congress did away with mandatory retirement. We are trying to encourage people to continue to work. And while they are working they earn bonus credits. Additionally, while working they will not be collecting social security, and they will be paying income taxes and payroll taxes.

Senator **Wallop**. I agree with that, but it is just inconsistent

The **Chairman**. Senator Mitchell.

Senator **Mitchell**. Thank you, Mr. Chairman.

I would like to say at the outset that the reaction that Senator Symms indicated he received among his constituents in Idaho is identical to that which I received from my constituents in Maine. I held a series of 26 meetings devoted solely to this subject, attended predominantly by senior citizens. And there was an overwhelming feeling of a willingness on their part to participate in whatever sacrifice is necessary to rescue the system or to continue it as a viable system.

One of the areas of principal concern is the cost of living adjustment. Many people agree—and I don't know whether you do or not so I won't say everyone—that one of the principal causes of the current cash crisis was the change made in 1972 which provided for the first time automatic annual cost-of-living increases, and which indexed the benefit increase with the increase in prices, while increasing the cap on the wage base subject to tax in accordance with the increase in wages.

The National Commission did not deal with that directly except to recommend a so-called stabilizer that when the trust funds fell below a certain level—20 percent—that the stabilizer would take effect and make the annual adjustment the lesser of the two.

My question is since that is a principal cause of the current problem—if you agree with that. You may not—don't you feel that it would make sense to address that cause directly, and make that change immediately; not contingent upon some level of the trust funds? If you have got the cause, why not address the cause?

I know, Mr. Brickfield, that you are opposed to that. And I don't know what Mr. Ossofsky and Mr. Rourke would have, but what is the problem with that? I will say that overwhelmingly the elderly constituents with whom I met, once they understood the nature of the problem, said they would accept such a change. That they feel it would be an appropriate thing.

Mr. OSSOFSKY. Senator, it's clear that people do feel that way when asked the question in that kind of a setting and respond that way. The data that I present in my testimony comes out of a variety of national polls, all of which are contrary to the views you receive in that kind of a setting.

Senator MITCHELL. But that is because I submit to you, Mr. Ossofsky, the people asked those questions in the poll have not had the benefit of an explanation of the problem. That's a crucial distinction, I think.

Mr. OSSOFSKY. Senator, that may be one way to interpret it. The other is that it may give them a very weighted picture of what the problem is. You, for example, indicate——

Senator MITCHELL. Do you agree that a principal cause of the current problem is the change made in 1972, and the resulting reversal of economic history between 1972 and 1982 in which, contrary to previous economic history, prices rose faster than wages?

Mr. OSSOFSKY. No, sir. I don't believe that's the heart of our problem. I think that is some aspect of the problem. I think the heart of the problem is the current high level of unemployment.

Senator MITCHELL. Well, do you agree that that is a principal cause? Nobody disputes the high level of unemployment.

Mr. OSSOFSKY. No.

Senator MITCHELL. Do you, Mr. Rourke, think that's a principal cause of the current problem?

Mr. SHULMAN. Let me just say that we believe that—that—inflation ran so high between then and now that it created the—so I mean the point is then to look at the inflation rate.

Senator MITCHELL. But the purpose of the cost of living adjustment is to allow for increases in inflation.

Mr. **Shulman**. And, of course, if inflation had not gone quite as high as it has then the severity of the——

Senator **Mitchell**. That's right, of course. We understand that. Do you think it is the principal cause of the current problem?

Mr. **Shulman**. Inflation in and of itself?

Senator **Mitchell**. No. Inflation and the fact that the benefit increase is tied to the price rate increase while the contribution increase was tied to the wage level increase.

Mr. **Shulman**. I guess I would agree with Mr. Ossofsky that it is certainly part of the problem.

Senator **Mitchell**. What do you think, Mr. Brickfield?

Mr. **Brickfield**. The problem now is tied to high unemployment, Senator. A 1-percent increase in unemployment means the Government loses $30 billion in income; 10-percent unemployment is devastating to social security income. So it's the economic recession that we are really talking about.

Senator **Mitchell**. Not $30 billion for social security, Mr. Brickfield.

Mr. **Brickfield**. Well, I have got to tell you, Senator, on the issue of wages or prices. Look at that stabilizer mechanism. It's a real sleeper. If it's triggered it will be another benefit cut because it's based on the lower of wages or prices.

Senator **Mitchell**. No question about that, but you don't want to cut any benefits.

Mr. **Brickfield**. No; we don't.

Senator **Mitchell**. Let me just make one further comment, if I may, Mr. Chairman, on your suggestion, Mr. Brickfield. As Senator Armstrong said, taxes have really gone up. And he ticked off a whole range of areas where taxes have gone up. What he identified was the real problem that we now face—the tax policies that are being pursued. We are cutting taxes related to ability to pay. We are raising taxes unrelated to ability to pay. The effect of which is a massive shift in the burden of taxation in our society away from those at the upper end of the income scale, and onto the backs of the middle class. And that's what is happening in this country today. And the dividing line is somewhere between $40,000 and $50,000. If you make more than $50,000, you are going to be paying a lot less in taxes, and not more.

Your proposal, Mr. Brickfield, would raise excise taxes, precisely the kinds of taxes that are being raised and that are increasing the burden on the backs of the middle class and the people you represent.

Mr. **Brickfield**. Well, we would rather raise income taxes, Senator, but we are putting this list out as options. We are saying that you should not rely on payroll taxes as the sole resource anymore, not after 45 years.

Senator **Mitchell**. You may be putting it out as options, but you have got a whole list of excise tax increases here which I think just aggravate the problem.

I have gone over my time, so I will let the others inquire. Thank you, Mr. Chairman.

The **Chairman**. Senator Heinz.

Senator **Heinz**. Thank you, Mr. Chairman.

When Senator Symms was here earlier, he mentioned that a few senior citizens showed up for his town meetings. I had four town meetings in Pennsylvania yesterday, and one on Friday. It seemed to me like about two-thirds of the people who showed up were Federal employees. [Laughter.]

And some of them were pretty senior Federal employees. And there were some questions on the social security recommendations that we make. By the way, other than Federal employees already employed who will get their civil service retirement benefits, I found absolutely no one being critical. Indeed, for the most part I found people saying, "Congratulations, you got the job done, and we are willing to do our part whether we are working business or working people or senior citizens, we are willing to do our part to make this compromise stick together." And I commend the National Council of Senior Citizens and National Council on Aging for their support of the package.

I would like to ask Cy Brickfield a few questions about the long-term suggestions that the AARP has made for social security. As noted in his colloquy with Senator Bradley and his recommendations as to the short term, and I think we have probably gone over them enough anyway, you basically support as the means of addressing the long-term deficit, which now appears to be anywhere from 1.8, 2 percent of taxable payroll to 2.1 percent of taxable payroll a work promotion strategy.

Mr. Brickfield. Right.

Senator Heinz. I think the work promotion strategy is something we ought to have, irrespective of what the problems of social security are. And I have attempted, though, to cost out your work promotion strategy. And as far as I can tell, we, first of all, do some of the things that you have suggested. We will be phasing in an actuarially based delayed retirement credit. In addition to that, you propose somewhat increasing by about 50 percent the early retirement penalty. And it looks to me like at most that might bring in about 0.2 to 0.3 additional of taxable payroll. Pretty modest compared to the 1.8 or 2.1 percent we have to come up with.

The other two recommendations you make, irrespective of their merits, are increasing access to social security disability and SSI benefits—that's going to cost money—and phasing out the earnings limitation which is going to cost money. So it looks to me that based on the analysis we have done that we are not going to make a lot of improvement in social security over the longer term.

Let me ask you this question. If, over the longer term, there are really only two ways to address social security's 75-year solvency problem—and let's assume that we do everything we can for work promotion and it doesn't work as well as we want—we either have to address the benefit side and slow the growth of benefits, or we have to increase payroll taxes. Which would you favor as the means of addressing the long-term problem of social security? Slowing the growth of benefits or increasing payroll taxes?

Mr. Brickfield. Senator, let me state our position. We do go for the work incentive program. And you know about that. We say that's partially in place. And we are for penalties for early retirement. And we think that would help.

But there are other things. The earnings limitation. You know when you earn $6,000 a year you start losing two for one. And I must say the administration has been been—well, the President has been at it for 10 years. This is the way we seek to go.

And, yes, you have to raise taxes. I said earlier that somehow or another you have to pay the bills. But we are saying that payroll taxes are no longer the solution. You have to look to other sources of income.

And, finally, we are not too sure, Senator, of the figures on which the Commission based its judgments.

Senator HEINZ. Well, if the Chair will give me 30 seconds more.

The CHAIRMAN. Oh, sure.

Senator HEINZ. I thought that you said in your testimony and in answer to a lot of other questions that these other sources of revenue were temporary. If indeed they are temporary, we have to get back to the issue of how we solve social security's long term problems. We both know we have got them. And time doesn't permit it, but I think it would be quite helpful to get on the record, given a choice between increasing taxes over the long term, or slowing the growth of benefits over the long term, what it is that you are really for because the answer you gave me didn't tell me.

Mr. HACKING. Senator, the record is very clear. AARP in addressing the long term wants to raise revenues. But we think that revenue should be raised by getting future older people to continue in employment for periods longer than they currently do. And to maximize their work effort as a way of obtaining that objection, we suggest a work promotion strategy which includes the elements that have already been identified here. What your actuaries didn't give you in trying to cost out our proposal is the net effect of these combinations of changes on the retirement decision behavior. That is the essence of the whole thing. If you get people to work longer, you get more revenue both for social security and for the general coffers of Government. They didn't give you any estimate on that. I know they didn't.

Senator HEINZ. My time, unfortunately, is expired.

The CHAIRMAN. Senator Pryor.

Senator PRYOR. Yes, thank you, Mr. Chairman. I have about three questions and I will try to make them very brief. And it's just to sort of wade through this thicket of attempting to figure out just exactly what this very fine group is saying. Relative to the mandatory versus voluntary aspect of the proposed system by the Commission, are all three groups saying that they think the Federal employee should be under a voluntary system? Is that what Mr. Brickfield is saying.

Mr. BRICKFIELD. Basically, in our long range we believe in universal social security, Senator. But at the present time we do not think that they should be mandated into the system; they should come on a voluntary basis. And if they do come in, you have got to have something more than social security. You have got to give them a pension as well so that in retirement they have adequate income.

Mr. OSSOFSKY. Senator, we believe that the Commission was sound on this issue. What it proposed is that all new Federal employees be brought into the system, but that an additional supplemental plan, similar to a private employer's plan be established. On the understanding that that would be done, we believe that all the employees ought to be brought into the system.

Mr. SHULMAN. I think that we have to look at the equity questions in terms of the system. And we are assuming and hoping that that system will provide relative parity to the current system. But we would support the proposal as it——

Senator PRYOR. So we are not talking about a mandatory system for one and a voluntary system for others?

Mr. SHULMAN. No, sir.

Senator PRYOR. Good. I wanted to ease that point in my mind. I thought I had misinterpreted what you had said.

The second question—you talked about some of the polls that are done. I believe you mentioned some. Have you polled the social security recipient in a State or a region or in a county relative to how they feel about the merger? We think we know how the Federal employees feel. We see a strong negative there, I assume. But what do we hear about the social security recipient? What do they say about this?

Mr. OSSOFSKY. I can give you those figures, Senator. I don't happen to have them with me, but the Harris poll that we commissioned just prior to the White House Conference on Aging indicated that the public as a whole—and there was very little difference as I recall between social security recipients and younger people—76 percent approved requiring workers not now paying social security taxes; for example, Federal Government employees, to pay those taxes. Only 8 percent of the public disagreed with that notion.

Senator PRYOR. That's public.

Mr. OSSOFSKY. That's not social security recipients alone, but we have that data. My recollection is that there was not any significant difference between social security recipients and nonrecipients in our study.

Senator PRYOR. I feel that there may be a perception—some of my colleagues may agree or disagree—that the social security recipient might feel that this is, as they say, another add-on or another drain from the social security system. I think that's a perception that they have in their mind right now.

Are you detecting this in polling?

Mr. OSSOFSKY. No, sir.

Senator PRYOR. Or letters or anything?

Mr. OSSOFSKY. Not at all. Around the country, what we hear, Senator, is that Members of the Congress ought to be in the system as well.

The CHAIRMAN. We are as of January 1984.

Senator PRYOR. January 1984 we will be in there. I learn something about this everyday.

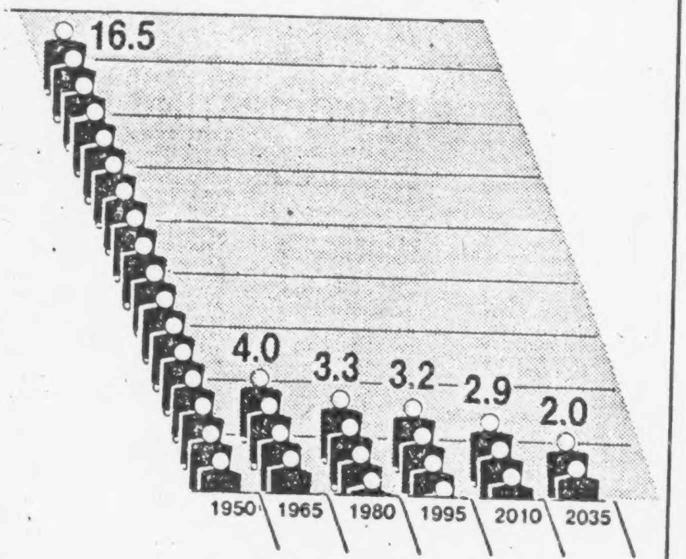
Yes, Cy?

Mr. BRICKFIELD. Senator, I have here a poll chart. It's not ours. It's a CBS poll made jointly with the New York Times. It shows that people would rather increase taxes than cut benefits. It's here, and I will submit it for the record. They would rather increase social security taxes than cut benefits.

[The information from Mr. Brickfield follows:]

People Holding Jobs Per Beneficiary

Numbers for each calendar year.
Figures for 1995 and beyond are projections.



Source: Social Security Administration, unless otherwise indicated

Some Possible Solutions

Percentages of respondents

The New York Times
CBS NEWS POLL

	YES	NO
"Do you think the Social Security system will have the money available to provide the benefits you expect for your retirement?"	27%	58%

"The Social Security system is spending more money to pay benefits than it is taking in from Social Security taxes. We want your opinion about some of the proposals that have been made to solve this. To solve the Social Security problem would you be willing or not willing to . . .

	Willing	Not Willing
. . . pay more in Social Security taxes?"	49%	42%
. . . raise the age at which people are eligible for full benefits from 65 years old to 68?"	39	57
. . .reduce benefits to people who retire before they're 65 years old?"	55	37
. . . tax the Social Security benefits of a married couple, if that couple has other income over $25,000 a year?"	63	32
. . . postpone the yearly increases in Social Security benefits?"	50	44

		NO
"Even if it meant increasing income taxes or increasing the size of the Federal deficit, would you be willing to use other government revenues to help pay Social Security benefits?"	58%	34%

Poll of 1,597 respondents conducted Jan. 16-19, 1983.
Those with no opinion are not shown.

Mr. BRICKFIELD. We are talking to people across the Nation. And you have to ask who are these younger people. Who are they? And do you know who they are in the short term? The next 6 or 7 years, they are the 40- and 50-year-olds that are paying into the system. And many of them have an elderly parent, or two parents, or in many instances four parents that are alive, if they are married couples. And they look upon social security as a godsend, and they are willing to pay increased taxes for social security.

Senator PRYOR. Thank you. I think my time has expired.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. I have one question, Mr. Chairman. I apologize for not being here for the testimony. And I know this is not the way to look at this problem, but as I look through the Commission's report they indicate, for example, that cash benefits today, not counting the value of hospital care, as a percent of preretirement income has increased, I believe, from 29 percent some time ago to 49.3 percent today.

And if you factor in the value of medical benefits provided through medicare, and since all these benefits are tax free, current benefits are about 60 percent of after tax preretirement income. Now it seems to me that one way possibly to approach this problem—and it's the one that somebody down at the White House must have approached last year when they came up and started to play with the bend point—is that maybe we ought to be thinking in terms of, at least with half of the hat on, a percentage of preretirement income since when we have our other hats on in this committee and are trying to do things for savings in this country—we are trying to improve the pension system, and the Keogh plans and IRA's and a wide variety of things. And as we look to the future—I'm looking beyond the eighties—clearly we want this social insurance system to be just one part of an overall income security system in this country.

If we are a great country, we measure the value of our income security system by how many jobs it provides people, how much savings they can do, and how much of that savings and investment they can retain for their so-called rainy days. We supplement it, then, with a second part of an income security system which we call social insurance. And in it we include not only social security but unemployment compensation and workers compensation, and other kinds of insured programs, and then we have for those who fall through what is now called the safety net—the welfare program—in its various dimension.

But has anybody or any of you looked at this in the long term in terms of the function of social security up against those other programs as an ideal percentage of preretirement income?

Mr. BRICKFIELD. We haven't recently. But, of course, the reform commission did not either, Senator. One can't look at social security in a vaccum. You've got to look at it against the IRA's, and the Keogh plans, and what is being paid for in medicare, and other programs. There was the Presidential Commission on Pension Policy that recommended a mandated 3-percent pension system—the McCollough plan it is called. All of these should be looked at together.

But that's not what the Social Security Commission opted to deal with today.

Senator DURENBERGER. No; I understand that. But before we finish this spring apparently we are going to try to deal with my kids in some fashion, and to try to make some kind of a commitment to my kids as well as the people in their forties and fifties. If I go to my kids saying AARP doesn't like the taxation of social insurance because it discourages savings and investments, my kids come back to me and say "why" because it's just part of one large system.

Mr. BRICKFIELD. I'm saying to you, Senator, the package that the reform Commission has put forward is going to tax your kids. They are going to pay much more because of the increases in the tax. And do you know what the kids can look forward to when their retirement time arrives. To a 10- to 25-percent cut in their expected benefits. That's what the Commission is saying tc them.

Senator DURENBERGER. Well, my kids aren't approaching life in terms of retirement on social security. And I don't think any kids in this country ought to. I mean they ought to think in terms of a job, and what that job can provide for them by way of earned income that they can save and invest and buy a home and stocks and all that sort of thing. And social security—I ought to be able to tell them, social security is what comes on top of it. I don't think they think today or would want to think in terms of taxing or not taxing.

Mr. OSSOFSKY. And, indeed, Senator, as time goes by, more people are covered by private pension, the Congress has changed tax policy to some extent, IRA's and Keoghs are coming into being, but for this generation of older that is not the case, for most of today's older people.

To respond to your specific question, I would say that preretirement income is not a very useful basis for examining postretirement income when you take into account longevity and what has happened to the cost of living. Someone who retired in 1960 on what appeared then to be a reasonably decent pension cannot consider that income today a reasonably decent pension. And we need COLA's to modify that kind of situation. Most private pensions are not in any way adjusted to keep up with the cost of living. That's the reason we need social security to do that.

Senator DURENBERGER. Well, I ask the question only because we are not just dealing with social security. We are dealing with other things. We are also dealing with medicare. On one of these occasions we are going to be around here debating the future of that particular form of retirement benefit. And I just wanted to know whether or not any of you were looking at this in the broader context as we look at my kids as well as the people that are our current generation.

Thank you very much.

The CHAIRMAN. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

It's been 6 years since Congress has addressed the social security system. And I guess it was 6 years before that that it had previously been addressed. And so this is a once in a term opportunity or maybe for some of us once in a lifetime opportunity to have some sort of input into social security. If there is anything that I could get out of this debate, one thing that I would desire would be to tell everybody in this country that we have made enough decisions to make social security sound for as far as we look into the future, and that's usually 75 years.

And I suppose the Commission bought the proposition that two-thirds of the loaf was better than a full. So you found opportunities for the short-term solutions, but couldn't reach a consensus on long-term solutions so we, in the Congress, have to do that.

I guess I would like your view, No. 1, on whether or not you think it is very important to find a long-term solution; and, No. 2, is somewhere between tax increases and the changing the program. And just one of those suggestions is increasing the retirement age to 66. There are a lot of other things that could be done. Do you see a chance for a solution if you desire one? Because I would like to see one. In fact, I think we would be irresponsible. I would even say Chairman Dole would be irresponsible if he gets a once in a 6-year opportunity to be able to tell the people of this country that we have an opportunity, and we didn't pass it up to make this a sound system into the country.

Mr. OSSOFSKY. Well, Senator, first of all we think you have to have long-term goals so you have to plan for long-term goals. And as you go into the future, if need be, you can adjust them. But as you pointed out, every 6 to 7 years, if you have to come back again—and what we are very much concerned about today, Senator, is that there is not enough money in the package right now, and you could very well be back in 1985, and then what do you say to the people? Had a wrong set of assumptions?

Senator GRASSLEY. What I am looking forward to is not to having a process by which we have a forced review. I think we ought to have a review of this system every so often, but not a forced review, not a crisis review. We ought to be making retirement program policies in a calm and clear and noncrisis atmosphere.

I don't know why we could not hope for the U.S. political leaders, as well as interest groups like yours, to hope for an environment like, for instance, the German people who for 70 or 80 years have not been forced to crisis proportions, to find solutions to their problems. And most of those decisions have been made outside of the political environment. And I would think that social security, likewise, ought to be made outside of the political environment. And that's the way it was intended until people figured that they didn't need to look to the long term; only look to the short term.

Mr. OSSOFKY. Senator, I would agree with you that that is something that we would all want to achieve. Indeed, the example of the German system which sets the tone for much of the rest of the Western world in the development of these systems includes many things which we have rejected. A much larger part of gross national income going into gross national product, going into the social security system. No hesitation about tripartite funding for the system. Many of the assumptions that are built into the conclusions you reach and the recommendations that you make, end up being faulty assumptions because we are dealing with less of a science and more of an art.

I think we have got to anticipate that the Commission did try to come a long way in the long-term issue as well as the short-term. There are clearly some gaps, but I think it's a little bit beyond our capacity to truly resolve every prediction for the next 75 years. I think we have made a very good beginning in the Commission's recommendations. And I am terribly worried about having other changes seep through that Commission strategy that undo the chance of a compromise at this point.

Senator GRASSLEY. Well, there are so many danger signals on the horizon, and one of those is that down the road in just 5, 6, or 7 years disability and medical insurance is going to be in the same crisis proportions as we are here with this one, and yet we are still relying on interfund borrowing to take care of the problem.

So you know we have only taken care of the short term. We are looking more at the next election than we are at the next generation.

The CHAIRMAN. Well, I want to thank the panel. We still have four witnesses before noon, and others scheduled at 1 o'clock. We will continue to work with not only the witnesses, but members of staff of the various organizations on the compromise proposal. You may have suggestions as we go along. If the compromise falls apart, then, obviously, it's a new ball game. We will probably just borrow more money, and hope for the best.

Thank you very much.

Our next panel is Mr. Philip Alden, vice president, Towers, Perrin, Forster & Crosby, New York, and member, Employee Benefits Committee, U.S. Chamber of Commerce; Ms. Grace Ellen Rice, assistant director, National Affairs Division, American Farm Bureau; William Dennis, director of research, National Federation of Independent Business; and Dr. Carlson, executive vice president, chief economist, National Association of Realtors.

You can proceed in the order called. Your statements will be made a part of the record. If you can summarize your statements and give us some time for questions, it might make for a better record.

Mr. Alden.

STATEMENT OF PHILIP ALDEN, VICE PRESIDENT, TOWERS, PERRIN, FORSTER & CROSBY, NEW YORK, AND MEMBER, EMPLOYEE BENEFITS COMMITTEE, U.S. CHAMBER OF COMMERCE, WASHINGTON, D.C.

Mr. ALDEN. Thank you, Mr. Chairman and members of the committee. I am Philip Alden, vice president of Towers, Perrin, Forster & Crosby, a nationwide employee benefit and actuarial consulting firm. I appear this morning on behalf of the U.S. Chamber of Commerce where I serve as a member of its Employee Benefits Committee.

The chamber has publicly commended the National Commission for many of its conclusions and recommendations. Many of those same recommendations have now been embodied in S. 1, the Social Security Amendments of 1983. American citizens need and want their Government to solve the massive financial problems of the social security system. They are entitled to expect from this Congress a solution that is fair to employees, employers, and retirees alike, that in economic terms hopes for the best but prepares for the worst. And it is more than an artful, political compromise that treats the symptoms of social security's illness but fails to cure its fundamental cause.

S. 1 can provide the needed solution, but only if certain of its provisions are modified or strengthened. Specifically, the U.S. Chamber makes these six recommendations.

One, the bill should move more aggressively toward the goal of universal coverage.

Two, automatic cost of living adjustments must be rigorously limited. We believe a 1983 adjustment should be waived. And that beginning in 1984, automatic COLA's should be capped. A limit of 60 percent would closely parallel the historical relationship between private sector COLA's and the increase in the CPI.

Three, we caution this committee against continuing to rely heavily on payroll tax increases to insure the solvency of social security.

Four, we are opposed to even the temporary use of general revenue financing, such as the proposed 1984 tax credit.

Five, we are also not in favor of the proposed method of subjecting social security benefits to income tax. That method is arbitrary. It is structurally unsound. And it is a disincentive to personal thrift and savings.

Finally, we urge the adoption of a gradual increase in social security's normal retirement age, and a continued moderation in the income replacement ratio.

These changes will help assure financial solvency well into the 21st century. In the time remaining, I would like to elaborate briefly on each of these six points. Public opinion polls clearly show that the Nation demands that all workers participate in social security. Arguments by groups opposed to universal coverage should not be allowed to cloud this message. Ironically, social security would be clearly beneficial to most employees in Government service. It offers better disability and survivor benefits in many cases. And because it affords immediate vesting and full portability, social security would be clearly superior for the close to one-half of all Federal Government employees who terminate their service before accruing vested pension rights.

The provisions of S. 1 aimed at delaying or modifying COLA adjustments reflect a well known fact. Namely, that the cost of automatic indexation is extraordinarily high, and more than anything else is responsible for the financial crisis we now face. The Nation cannot afford, the taxpayers cannot afford timid ineffectual approaches to this problem. The so-called COLA stabilizer, indexing by the lesser of wage or price increases, would not take effect until 1988 at the earliest. And the shift to a year end COLA adjustment, desirable though it may be, does nothing to change the rate of growth in benefits. Neither does it justify full CPI indexation for social security beneficiaries at the expense of workers whose real wages have actually declined in recent years.

We advocate a 1-year freeze followed by indexing of social security at 60 percent of the increase in the CPI. Such a change would add an estimated $78 billion to the trust funds in the next 5 years alone. It is a prudent and responsible action, balancing fairly the needs of the recipients of social security against those who pay the taxes. It is a simple and workable change. Moreover, it would largely, if not totally, eliminate the need for a last resort fail-safe mechanism, such as the Commission proposed be enacted by Congress.

The chamber is concerned that further payroll tax increases will slow our economic recovery, increase unemployment and place American goods and services at a still greater competitive disadvantage in world markets. It's been only 5 years since the last major increases in taxes, and less than 5 years in the future, massive increases will doubtless be needed to rescue medicare. There is no one in Congress able to foresee where this road is taking us.

The chamber is opposed to masking the effects of the proposed payroll tax increase in 1984 by granting a tax credit to employees. Such action gives the public a mixed signal. Let's be clear. Either the revenue is needed, or it is not. Either way, we must not abandon the practice of equal sharing of the cost of social security between employee and employer. It's one of the few effective controls we have against irresponsible expansion of the social security system.

I'm sorry my time has elapsed. I did want to say that in addition, that we fail to see how anyone can object to the advancing of the social security normal retirement age beyond age 65. We feel there is no long-run alternative that is as satisfactory.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Alden follows:]

LET'S REBUILD, AMERICA
IN THE 80's

Statement of the Chamber of Commerce of the United States

ON: SOCIAL SECURITY

TO: SENATE FINANCE COMMITTEE

BY: PHILIP ALDEN

DATE: FEBRUARY 22, 1983

STATEMENT
on
SOCIAL SECURITY
before the
SENATE FINANCE COMMITTEE
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Philip Alden
February 22, 1983

I am Philip Alden, Vice President of Towers, Perrin, Forster and Crosby, a nationwide employee benefit and actuarial consulting firm. I appear this morning on behalf of the U.S. Chamber of Commerce where I am presently a member of the Employee Benefits Committee. I am pleased to have the opportunity to present the U.S. Chamber's recommendations on Social Securtiy.

SUMMARY

The Chamber of Commerce of the United States commends the National Commission on Social Security Reform for its conclusion that the fundamental structure of the Social Security system must be retained; for its diligent, bipartisan efforts in clarifying, and offering proposals to solve, urgent short-term Social Security financing problems; and for the constructive contribution it has made in placing these issues before the Congress and the public.

The Commission, however, acknowledged that its proposals do not entirely solve the long-term problems in the system; those should be addressed so that younger workers can have confidence in Social Security and our government's commitment to this important program. For the near-term, further refinements can be made to assure that deficiencies are fully corrected and that emergency action is not again necessary in a few years. Most importantly, the burdens of the corrections must be shared equitably by employees, employers and retirees -- an element missing from the Commission's compromise.

Among the changes that Congress should carefully consider are:

- further expanding the coverage of government employees toward a goal of full universal coverage

- structural adjustments of COLA formulas
- gradual increase in the normal retirement age
- an adjustment of the rate by which benefits replace wages in the long term
- avoiding reliance on increased payroll taxes or general revenue financing.

Details of the U.S. Chamber's recommendations are on page 16 of this statement.

American citizens need to have their government solve the massive financial problems of Social Security in a manner which guarantees this vital system will continue to function in the future with fairness and integrity.

BACKGROUND

Social Security is this nation's most important domestic program, touching the lives of nearly every U.S. citizen. One in seven Americans draws a benefit while almost fifty percent of the populace pays Social Security taxes.

Among private sector employers, about 98 percent participate in the program through payment of payroll taxes and most construct their retirement and disability benefits around Social Security. The business community has no interest in dismantling Social Security.

Nonetheless, we do recognize that, in the last decade, Social Security has been considerably expanded while other benefit programs have been reduced as a result. We believe the time has come to end that expansion and rely more on private efforts. We are dismayed to see that the National Commission's report offers no help in this regard.

THE PROBLEM

The intense publicity the financial difficulties of Social Security has received over the past two years has put the question squarely before the public: Can we afford the Social Security system we have created? A careful examination of the financial projections for Social Security in the short-term, long-term and in the area of Medicare financing clearly indicates that we cannot.

In the near term, the nation is now aware of the fact that, unless action is taken, the Old-Age and Survivors Insurance Fund (OASI), the largest of the three payroll tax financed Social Security Trust Funds, will be unable to make timely retirement and survivor benefit payments beginning in July of this year.

For the past several years, OASI has been spending far more than it has been taking in. We estimate it is currently, outspending revenues by $17,000 a minute. During this time the program has had to rely on reserves built up over a period of years to meet its monthly benefit obligations. (See Table 1) (in billions)

TABLE 1

OLD-AGE AND SURVIVORS INSURANCE TRUST FUND 1977-1981

YEAR	INCOME	EXPENDITURES	NET INCOME*
1977	$ 72.4	$75.3	$-2.9
1978	78.1	83.1	-5.0
1979	90.3	93.1	-2.8
1980	105.8	107.7	-1.9
1981	125.4	126.7	-1.3

Source: Social Security Administration
* The shortages are met by drawing down Trust Fund reserves

The past several years have been hard on the Social Security program and the projections for the next decade are no better. (See Table 2)

TABLE 2

COMPARISON OF INCOME (EXCLUDING INTEREST) AND OUTGO
(in billions)

Alternative III Estimate

	OASI			DI			
Calendar Year	Income	Outgo	Net Income	Income	Outgo	Net Income	OASDI, Net Incomne
1982	$124.9	141.9	$-17.1	$ 22.2	$18.1	$ +4.1	$-13.0
1983	134.5	157.7	-23.2	24.3	19.1	+5.2	$-18.0
1984	147.3	177.2	-29.9	26.6	20.3	+6.3	-23.6
1985	170.1	199.8	-29.7	33.9	22.2	+11.7	-18.0
1986	188.8	224.0	-35.2	37.8	24.3	+13.5	-21.7
1987	208.3	250.2	-41.9	41.8	26.5	+15.3	-26.6
1988	229.5	277.7	-48.2	46.0	28.9	+17.1	-31.1
1989	252.0	306.8	-54.8	50.5	31.6	+18.9	-35.9
1990	294.6	337.5	-42.9	63.4	34.4	+29.0	-13.9

Source: National Commission on Social Security Reform

Compounding the problems, long-term projections are even worse. Although estimates vary, all agree that benefits, as now structured, will exceed payroll tax collections over the next 75 years. The 1982 Trustees Report estimates that the combined average deficit for the Old Age and Disability Insurance trust funds may average 1.82% of payroll. In other words, the average payroll tax rate would have to be 1.82% more than is now scheduled by law. (See Table 3) That rate increase equals about $1.6 trillion in additional revenues needed to fund the program in the future.

TABLE 3

SOCIAL SECURITY BOARD OF TRUSTEES
ESTIMATES OF OASDI DEFICITS

	AVERAGE SCHEDULED TAX RATES*	AVERAGE ESTIMATED EXPENDITURES*	DIFFERENCE
25 Year Estimate	12.01	11.37	+ .64
50 Year Estimate	12.40	14.08	-1.68
75 Year Estimate	12.40	16.81	-4.41
		75 Year average	-1.82

Source: 1982 Trustees Report

* Excludes Medicare tax and Medicare expenditures.

These estimates do not, however, fully represent the funding problems of the Social Security program because they exclude the tremendous funding problems ahead for the Medicare program -- the third of the three payroll tax financed Social Security trust funds. These problems may being as early as 1987.

As the administrators of that program warned Congress in their 1982 Trustees Report:

> Although the Hospital Insurance Trust Fund is not in immediate danger of being unable to provide benefits which become payable, the present financing schedule is not adequate to ensure the payment of benefits even through the remainder of this decade. Disbursements exceed income in the near future leading to complete exhaustion of the fund in the latter half of the 1980's. The interfund loan to the Old-Age and Survivors Insurance Trust Fund will not be repaid in time to delay the time of exhaustion of the Hospital Insurance Trust Fund, thus further weakening the financial status of that Fund. In order to bring the hospital insurance program into close actuarial balance,

either disbursements of the program will have to be reduced or financing increased by more than one-third.

That report goes on to warn that, averaged over the next twenty-five years, Medicare expenditures could exceed income by 3.73 percent of taxable payroll. (See Table 4)

TABLE 4

ACTUARIAL BALANCE OF THE HOSPITAL INSURANCE PROGRAM, UNDER ALTERNATIVE SETS OF ASSUMPTIONS

(Average for the 25-year period 1982-2006, expressed as a percent of taxable payroll.)

	Alternative			
	I	II-A	II-B	III
Average contribution rate, scheduled under present law	2.86%	2.86%	2.86%	2.86%
Average cost of the program, for expenditures and for trust fund maintenance	3.72	4.49	4.93	6.59
Actuarial balance	-0.86	-1.63	-2.07	-3.73

Source: Hospital Insurance Trustees Report

In the longer-term (over the next seventy-five years) the funding shortfalls for Medicare get worse. Estimates vary about the severity of the long-term funding problems but all agree that very serious deficits will occur soon and will continue to grow in severity, year-by-year, unless action is taken.

SOLUTIONS

There are only two ways to solve the deficit problems of Social Security. We can either fund those deficits by raising revenues or identify the reasons why program costs have been exceeding revenues and take appropriate action to reduce those costs.

There are three ways to raise Social Security revenues: increase the payroll tax, find alternative sources of revenues, or increase the tax base by adding more taxpayers.

Raising Payroll Taxes In 1977, Congress attempted to solve the funding problems of Social Security by enacting what was, at that time, the largest peacetime tax increase in U.S. history. Those increases, much of which have yet to be paid, have not solved the funding problem.

Social Security taxes have increased so rapidly that further increases risk public resentment against the program itself.

In the first fifteen years of the program, the maximum tax increased by an average of only $1 a year, from $30 to $45 a year. Ten years later, in 1960, the maximum tax had tripled. Over the next 10 years, it almost tripled again. But in the last 10 years, the maximum grew sixfold and will continue this steady climb until all of the increases passed in 1977 have taken effect. That occurs in 1990 when the tax rate will rise to 15.3 percent of taxable payroll with the employer and the employee sharing equally in that burden. (See Table 5)

TABLE 5

PAST AND FUTURE TAX RATES AND TAXABLE EARNINGS BASES FOR EMPLOYER AND EMPLOYEE COMBINED.

YEAR	TAXABLE EARNINGS BASE	CASDHI TAX RATE	MAXIMUM TAX (EMPLOYER/EMPLOYEE EACH)
1940	$ 3,000	2.0%	$ 30.00
1945	3,000	2.0	30.00
1950	3,000	3.0	45.00
1955	4,200	4.0	84.00
1960	4,800	6.0	144.00
1965	4,800	7.25	174.00
1970	7,800	9.6	374.40
1975	14,100	11.7	824.85
1980	25,900	12.26	1587.67
1985	40,500 (A)	14.1	2855.25 (A)
1990	57,000 (A)	15.3	4360.50 (A)

(A) Based on intermediate (II-B) assumptions of the 1982 Trustees Report.

Source: Social Security Administration

In addition to the scheduled rate increases, the maximum amount of earnings taxable is indexed to increases in average earnings for all employees nationwide. In other words, more earnings are subject to Social Security taxes every year. By 1990, the maximum tax for an individual employee may well be over $4,300, plus a matching contribution by the employer.

This rapid escalation of payroll taxes has had a devastating impact on small business and individual workers. Between 1950 and 1980, the Social Security tax paid by the average worker increased over 2,000% while that same worker's wages increased only 490%. Moreover, today many workers pay more in Social Security taxes than they do in federal income taxes.

Social Security taxes are creating havoc for business too, especially small business. Not only has business been subject to the same rate of increase in payroll taxes as individuals, but tax deposit requirements have been speeded up to require employers to make Social Security tax deposits within three days of the date wages are paid. This speedup of deposits, in conjunction with the increased amount of payroll taxes, has severely affected the cash flow of many small businesses. For large employers, the problem is amplified by the large sums of capital tied up in payroll deposits.

Using General Revenues Another option to alleviate the Social Security shortfall is to de-emphasize the system's self-supported financing.

Congress could supplement Social Security Revenues through general revenue loans, direct subsidies or other, less direct, methods. This option, while politically less painful than raising taxes, would not be in the best interests of Social Security or the nation.

Many arguments can be made against funding the system with general revenues. Foremost is the contention that most workers perceive their benefits as a right earned by their payroll tax contributions. They do not regard Social Security as welfare, which accounts for the great popularity of the system. Large government contributions would weaken this perception and the system's acceptability.

General revenue financing would also compromise the "fiscal brake" that is inherent in a self-supporting program. The present financing mechanism provides a close tie between benefit liberalizations and additional taxes to pay for them. General revenue financing would destroy this restraining feature and increase the tendency to overextend Social Security by enacting unrealistic new benefits.

Compounding this overexpansion would be the tendency to "means-test" benefits, that is, to use the Social Security program to aid the elderly poor, disabled and survivors by providing for much greater skewing of benefits than now exists. This too, would destroy the earned-right concept of Social Security.

Moreover, these questions must be asked: With recent deficits at record levels, what general revenues would be used? Would higher deficits slow economic growth? And would slower growth mean less payroll tax revenue for Social Security? Therefore, does not dependence on general revenues worsen the problem?

Universal Coverage Yet another way to increase revenues is to find more taxpayers. Mandating coverage of all federal employees and those state and local government and non-profit organization employees not now participating in Social Security appears to be a logical choice. This addition would provide significant revenues to the trust funds at a time when they are desperately needed to avoid insolvency. It would also be beneficial in the long term. Moreover, it would end the resentment now felt by workers who see an elite minority of the population not fully aiding in the support of the nation's elderly, widowed, orphaned and disabled through the Social Security program.

Ninety percent of the American workforce is covered by Social Security, but about 7,000,000 workers, mostly federal, state and local government employees, are not. Nonetheless, about 80% of these uncovered employees do qualify for Social Security benefits as a result of working in covered employment at some time in their career or qualifying as a dependent. As a rule, such employees obtain benefits which are about two-thirds of the amount they would have earned if their full career had been in covered employment. Yet, on the average, they pay less than one-third of what career-long covered employees pay into the program. This windfall can not be justified.

If mandatory universal coverage were effective January 1984, over $100 billion in additional revenues could be expected by 1989. That sum would not be raised by raiding the retirement trust funds for federal, state and local government employees. Those funds belong to these employees and must be used exclusively to pay promised pensions to both present and future beneficiaries. No one not proposes using those funds for Social Security. What is proposed, however, is that all working Americans have Social Security as their base line pension. Employer-provided pensions, where available, should be supplemental to, and integrated with, Social Security just as they are now by the majority of private and public sector pensions.

The only other option available to Congress is to reduce future Social Security costs. The current Social Security program is much more expansive than its architects ever intended.

The system was originally designed to do nothing more than provide a base layer of protection for the elderly. In fact, when President Franklin Roosevelt signed the Social Security Act into law on August 14, 1935, he stated:

> Today a hope of many years standing is in large part fulfilled...we have tried to frame a law that will give some measure of protection to the average citizen and to his family against poverty ridden old age.

However, the program has developed into one far from that original concept. The great prosperity of the 1950s and 1960s led to surpluses in the Social Security trust funds and Congress expanded and liberalized the program. (See Table 6)

TABLE 6

MAJOR EXPANSIONS OF SOCIAL SECURITY

1939:	Spouse and survivor benefits.
1952:	Benefits increased by 13 percent.
1956:	Disability insurance benefits; early retirement benefits for women.
1958:	Dependent benefits for disabled workers.
1960:	Disability insurance eligibility liberalized.
1961:	Early retirement benefits for men
1965:	Medicare benefits; benefits increased by 7 percent.
1968:	Benefits increased by 13 percent.
1970:	Benefits increased by 15 percent.
1971:	Benefits increased by 10 percent.
1972:	Benefits increased by 20 percent; automatic cost of living adjustments to benefits and benefit formula.

Insufficient consideration was given to the future funding of those liberalizations. In six of the last seven years, Social Security's costs have exceeded revenues. In 1950, the program provided benefits for 3.5 million people at a cost of one billion dollars, representing 2.5 percent of all federal expenditures. This year, over 36 million Americans will receive benefits, amounting to about $200 billion, equal to 25 percent of the federal budget. By 1986, benefits are expected to exceed $300 billion annually. (See Table 7)

TABLE 7

OASDHI TRUST FUND GROWTH 1950-1983

YEAR	INCOME A)	OUTGO A)	Number of Beneficiaries B)	Percent of Total Federal Expenditures
1950	2.9	1	3.5	2.5
1955	6.2	5.1	8.0	7.5
1960	12.4	11.8	14.8	12.7
1965	17.9	19.2	20.9	15.5
1970	43.0	38.2	26.2	18.7
1975	80.6	80.5	32.1	22.6
1980	145.8	148.6	35.6	24.7
1983	206.6 C)	216.3 C)	----D)	26.1 E)

A) in billions
B) in millions
C) Estimate based on alternative II-B assumptions.
D) Figure for 1983 not available. Figure for 1982 was over 36 million.
E) Estimate based upon national income account projection.

Social Security's rate of growth can be measured further by noting that program costs, in recent years, have been almost doubling every five years -- from $38 billion in 1970, to $80 billion in 1975, and to $148 billion in 1980, and an estimated $275 billion in 1985.

This great rise in the cost of Social Security is not caused simply by more people collecting benefits. The benefit levels have risen dramatically also. This rise can be measured by noting the wage replacement rate for Social Security. (i.e., the ratio between Social Security benefits and pre-retirement wages). Through the early years of the program and up until 1970, the wage replacement rate for the average worker on retirement was between 30 and 34 percent. During the 1970's that rate began to rise sharply until 1981 when that same average worker could expect a pretax wage replacement of about 55 percent. (See TABLE 8)

TABLE 8

SOCIAL SECURITY WAGE REPLACEMENT RATE 1955-1981

YEAR	Low Income Workers	Average Income Workers	Maximum Income Worker
1955	49.6	34.6	32.8
1960	45.0	33.3	29.7
1965	40.0	31.4	32.9
1970	42.7	34.3	29.2
1975	59.5	42.3	30.1
1980	64.0	51.1	32.5
1981	68.5	54.7	33.4

The 1977 Social Security Amendments moderated this rate substantially. Those rates are still, however, well above their historical levels.

It has become obvious that, if this trend continues, Americans no longer will be able to afford Social Security.

THE NATIONAL COMMISSION'S RECOMMENDATIONS

On December 16, 1981 President Reagan announced the appointment of the National Commission on Social Security Reform. The goal of the Commission was "to work with the President and the Congress to reach two specific goals: propose realistic, long-term reforms to put Social Security back on a sound financial footing; and forge a working bipartisan consensus so that the necessary reforms will be passed into law."

On January 15, 1983, the bipartisan Commission issued its recommendations. Those recommendations would attempt to solve the funding problem of the Old-Aged and Survivors Insurance (OASI) and the Disability Insurance (DI) Trust Funds through a combination of program reforms. The Commission decided not to address the Medicare funding problems but instead to leave its resolution to the 1982 Advisory Council on Social Security, which is expected to issue its report by July 1, 1983. The Commission recommended changes in the areas of expanding coverage, modifying benefit growth and increasing taxes. The Commission's recommendations follow:

Financial Status

- For the short-term (1983-89), $150-200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds.

- For the long-term, an actuarial imbalance for the 75-year valuation period averaging 1.80% of taxable payroll exists for OASDI.

Coverage

- As of 1/1/84, cover all non-profit employees.
- As of 1/1/84, cover newly hired federal employees.
- Ban withdrawal by state and local governments now under the system.
- Eliminate "windfall" benefits for persons with pensions from non-covered employment, effective for those first eligible to retire after 1983.

Benefits

- Delay the automatic increase in benefits (COLA) for six months (January instead of July) and make all future increases payable on a calendar year basis.
- Beginning in 1988, stabilize the program by providing that when trust fund reserves fall below 20% of annual outgo, the cost-of-living adjustment (COLA) would be calculated by using the lesser of average wage increases or the Consumer Price Index increases until reserves return to 20%. When reserves reach 32% additional benefits would be paid making up for any previous payments that were less than CPI.
- Various proposals designed to lessen the perceived inequities in the treatment of women under Social Security.

Taxes

- Increase the tax rate for the years 1984, 1988 and 1989 by advancing scheduled tax rate increases as follows:

Year	Present Law	Proposed
1983	6.7%	6.7%
1984	6.7	7.0
1985	7.05	7.05
1986	7.15	7.15
1987	7.15	7.15
1988-89	7.15	7.51
1990 and after	7.65	7.65

- Provide a refundable tax credit to employees for the year 1984 for the part of the employee rate which has been increased.

- Tax one-half of the Social Security benefit of beneficiaries with adjusted gross incomes (excluding Social Security) above $20,000 if single and $25,000 if married filing joint return. The proceeds would be returned to Social Security.
- Make the self-employment tax rate (currently 75% of the combined employer/employee rate) comparable to the full rate and allow a business deduction (currently not allowed) for one-half of the total tax.
- Apply Social Security taxes to salary reduction pension plans qualified under Section 401(K) of the Internal Revenue Code.

Miscellaneous

- Reallocate tax rates between OASI and DI trust funds.
- Extend interfund borrowing for 1983-87.
- Make lump-sum payment from the general fund to the Social Security trust funds for military wage credits and the value of uncashed checks.
- Increase the delayed retirement credit (currently 3%) to 8% over the period 1990-2010.
- Improve the investment procedures for Social Security trust funds.
- Add two public members to the Board of Trustees of the Social Security Trust Fund.
- Remove Social Security from the unified federal budget.
- Study the feasibility of making the Social Security Administration a separate, independent agency.

The financial impact of all the Commission's recommendations are shown in Table 9.

In addition, the Commission recommended that a "fail-safe" mechanism be incorporated into Social Security so that benefits could continue to be paid on time despite unexpectedly adverse conditions which occur with little notice. The Commission could not agree, however, on the form that fail-safe mechanism should take.

Furthermore, the Commission acknowledged that its recommendations did not fully solve the long-term funding problems of OASDI. On the issue of closing this gap, the Commission agreed to disagree. A majority stated that the long-term funding gap should be closed through raising the retirement age, with a minority advocating a future payroll tax increase.

Table 9

SHORT-RANGE AND LONG-RANGE COST ANALYSIS OF OASDI PROPOSALS
by the National Commission on Social Security Reform

Proposal	Short-Term Savings, 1983-89 (billions)	Long-Range Savings (percentage of payroll)
Cover nonprofit and new Federal employees[c]	+$20	+.30%
Prohibit withdrawal of State and local government employees	+3	--
Taxation of benefits for higher-income persons	+30	+.60
Shift COLAs to calendar-year basis	+40	+.27
Eliminate windfall benefits for persons with pensions from noncovered employment	+.2	+.01
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	-.1	--
Index deferred widow(er)'s benefits based on wages (instead of CPI)	-.2	-.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	-.1	-.01
Increase benefit rate for disabled widow(er)s aged 50-59 to 71½% of primary benefit	-1	-.01
Revise tax-rate schedule	+40	+.02
Revise tax basis for self-employed	+18	+.19
Reallocate OASDI tax rate between OASI and DI	--	--
Allow inter-fund borrowing from HI by OASDI	--	--
Credit the OASDI Trust Funds, by a lump-sum payment for cost of gratuitous military service wage credits and past unnegotiated checks	+18	--
Base automatic benefit increases on lower of CPI or wage increases after 1987 if fund ratio is under 20%, with catch-up if fund ratio exceeds 32%	--	--
Increase delayed retirement credit from 3% per year to 8%, beginning in 1990 and reaching 8% in 2010	--	-.10[a]
Additional long-range changes[b]	--	+.58
Total Effect	+168	+1.80

a/ This cost estimate assumes that retirement patterns would be only slightly affected by this change. If this change does result in significant changes in retirement behavior over time, the cost increase would be less (or possibly even a small savings could result).

b/ Alternate methods for obtaining this long-range savings are presented in the Additional Statements of the members (in Chapter 4).

c/ Includes effect of revised tax schedule.

NOTE: See text for complete description of the proposals.

U.S. CHAMBER APPRAISAL

The Commission's report presents the Congress with three options. Congress can reject its recommendations, accept them without change, or improve upon the Commission's recommendations.

There are several persuasive reasons why Congress should reject this report's compromise solution, but one overriding reason why Congress should accept it.

First and foremost, the bipartisan compromise is not a complete solution. The Commission admits it does not resolve the long-rerm crisis nor does it suggest how the Medicare crisis might be resolved. Now, there is some evidence that the short-term crisis may not be corrected by the compromise either. The American public wants Congress to make the hard choices required to restore full solvency to Social Security.

Second, the compromise is tax heavy -- $111 billion over the next six years -- and these taxes will measurably slow economic recovery and growth. Prior to the release of the Commission's report, the Chamber's Economic Forecast Center projected the impact tax increases of this magnitude might have on economic activity and unemployment. Depending upon the extent to which the scheduled tax increases are accelerated, the result would be a gross national product $18.3 billion to $112.6 billion lower and, more importantly, increased unemployment of 600,000 to 2.2 million by 1990. Slower growth and less employment will mean less revenues for Social Security. That is exactly what occurred following the 1977 Social Security tax hike.

Third, the Commission's recommendations violate several principles on which Social Security has relied since its inception over 40 years ago. Of particular concern is the massive introduction of general revenue financing and the taxation of benefits. General revenue financing undermines the fiscal discipline so necessary to adequate funding of the program. It substitutes IOU's for payroll taxes. Taxing benefits introduces a needs test and undermines efforts to encourage supplemental retirement savings.

Finally, the Commission, after carefully documenting over-escalation of benefits as a contributing cause of the current problems and demonstrating the need to slow future escalation of benefits, fails to include correction of the problem in its recommendations.

The argument why Congress ought to accept the compromise report include the very important consideration that there is little time to construct another solution that everyone could accept.

CHAMBER RECOMMENDATIONS

Faced with choosing between political realities and long held principles, the Chamber urges the Congress to accept the Commission's compromise as a necessary beginning for constructing a balanced and complete solution to the financial ills confronting Social Security, and improve the compromise as indicated below.

Short-term Improvements

To respond to the short-term financial crisis, the Chamber recommends the following:

1. Strengthen the COLA delay, as well as stabilizer provisions, by extending the delay to twelve months and, thereafter, initiate a COLA formula of 60% of CPI.

   This permanent change in the COLA formula would place Social Security increases on parity with the past long-run average COLA yield in the private sector and, therefore, create equity with private sector practices. Moreover, this change would dramatically increase the solvency of Social Security and significantly add to the level of public confidence advocated by the Commission. The National Commission's COLA stabalizer (lesser of price or wage increases), even if adopted in 1983 instead of 1988 as planned, would save less than $4 billion between now and 1988 according to the National Commission's estimates. Sixty percent of CPI would add $78 billion to the trust funds over that same period based on Office of Management and Budget inflation forecasts.

   The Commission recognized the need for Congress to enact some failsafe, or last resort, mechanism to assure the solvency of the Social Security Trust Funds in case the combination of short-term reforms plus stabilizers proved inadequate. The COLA change we advocate would greatly reduce the likelihood that a failsafe would ever be necessary. The Chamber supports the objective of a failsafe, but would oppose the use of general revenues, even on a temporary basis, for this purpose.

We expressly caution against over-reliance on payroll taxes as a solution to the financial problems facing Social Security. Increasing payroll taxes will slow economic recovery, increase unemployment and affect the financial capacity of business, particularly small firms.

2. Cover all federal, state and local government employees, not put new federal employees or recommended by the Commission, with full universal coverage as the goal.

All public opinion polls clearly show that the nation demands that all workers participate in the Social Security program. Congress should heed this demand and expand upon the recommendations of the National Commission. It is inequitable to the vast majority of working individuals that an elite minority is exempt from fully aiding in the support of the nation's elderly, disabled, widowed and orphaned that is provided by Social Security.

Current arguments used by those opposed to universal coverage should not be allowed to cloud this clearly necessary change. Social Security participation would not bankrupt government pension programs and, in fact, would be beneficial to most of those in government service. Social Security would supply those workers with a portability of retirement credits not currently available to them. In addition, Social Security would, in many cases, supply better disability and survivor benefits. It must be remembered, when considering the arguments of those opposed to universal coverage, that are estimated one-half of all those entering government service do not stay long enough to vest in government pension programs. These people would be greatly aided by universal coverage.

3. Benefits should not be subject to income taxation. This would be consistent with the Commission's recommendation that Social Security benefits continue to be available without regard to financial need. Taxing benefits would add a "needs test" to Social Security. That is, benefit levels would be determined by financial status rather than as an earned right. This would be a major change in the basic concept on which Social Security was founded.

Dedicating income tax revenues to Social Security is in reality general revenue financing of the program. No other social insurance program has income tax revenues earmarked for allocation to that program. When unemployment insurance benefits are taxed, the proceeds do not go back into the unemployment insurance trust funds, nor do taxes on Civil Service Retirement, Military Retirement or private pensions.

In addition, taxing Social Security benefits would be inequitable because it would discriminate against those who have taken the responsibility of providing for their own retirement. It would, in effect, be a disincentive for individuals to establish IRA's or other pension arrangements and lead to more dependency on Social Security.

The revenues associated with this provision should be more equitably recovered through appropriate revisions of the COLA provisions and expanded coverage of federal, state and local government employees.

4. Delete general revenue financing, it would undermine the structural discipline of the Social Security program. The 1984 tax credit for the accelerated portion of the payroll tax would not contribute to the financial solution of Social Security's problems, but it would increase the federal deficit.

Long-term Improvements

To complete the solution of the long-term financial imbalance of Social Security's trust funds, the Chamber supports the recommendation of the majority of the Commission's members to gradually increase the normal retirement age.

The life expectancy of Americans is not static, but continues to increase. Thus, the retirement age should be thought of as an evolving, rather than a static concept. Those aged 65 today are probably at least as healthy, on the average, as those aged 62 some years ago. Persons aged 68 some years hence may well be as robust as those aged 65 today. Improvements in public health, nutrition, and medical care all play a part in this increasing longevity. Not long ago, this fact was recognized by Congress with the increase, in general, of the mandatory retirement age of 70.

In addition, there have been startling demographic changes in the American workforce since 1935. At that time, we had about 16 workers for every retiree. Today there are about three workers for every retiree and when the post World War II baby crop reaches retirement age, that ratio will be down to two to one. These changes have had a dramatic effect on the Social

Security program and make it essential to pave the way now for a higher normal retirement age under Social Security in the future.

In addition, we recommend a moderation of future replacement rates. Several proposals were studied by the National Commission to accomplish this goal. These reductions can and should be phased-in so that no current beneficiary or those about to retire would be affected.

MEDICARE

The Commission has chosen not to deal specifically with the serious financial imbalance that will affect the Medicare Hospital Insurance Trust Fund beginning in the 1990's. Instead, the Social Security Advisory Council will address this problem. Congress should acknowledge the problem and press on to complete the solution to the total problem of the combined Social Security Trust Funds as promptly as possible.

CONCLUSION

Social Security reform is urgently needed. Congress must act in the next several months. The National Commission has placed the issues before the public. We urge Congress to refine the National Commission package of recommendations with the improvements we have suggested so that the solvency of the Social Security system will be assured and public confidence in the system will be restored.

STATEMENT OF GRACE ELLEN RICE, ASSISTANT DIRECTOR, NATIONAL AFFAIRS DIVISION, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, D.C.

The CHAIRMAN. Grace.

Ms. RICE. Mr. Chairman, Farm Bureau is the Nation's largest general farm organization. We represent farmers throughout the country, who produce virtually every commodity grown on a commercial basis in this Nation. Our members participate in a comprehensive policy development process at the county, State, and national levels. In January of this year, Farm Bureau members adopted a policy on social security, part of which I would like to highlight now.

We support a freeze in social security benefits until Congress makes basic reforms in the social security program. We prefer stabilizing benefits rather than increasing social security taxes. Benefits must be based upon an employee's contributions to the system. Any adjustment in social security benefits should be based on a percentage of the annual decrease or increase in average wages.

We oppose any proposal to finance social security retirement income benefits out of general revenues. We urge that all employees, both in the private and public sector, be included in the social security program. We recognize each individual's right to participate in pension plans in addition to social security. And we urge Congress to separate the income supplement benefits in the social security program from the medical benefits. Medical program benefits should be separated from retirement benefits and funded with general revenues.

Social security financing is one of the top legislative priorities for Farm Bureau in 1983. The financial consequences of the report of the National Commission to Farmers as self-employed business people cannot be over-emphasized, nor can the long-term effect of the Commission's failure to address the growth of social security benefits. Just as Farm Bureau seeks a balanced budget through reduced Federal spending rather than tax increases, we seek social security solvency through stabilized benefits rather than increased payroll taxes.

Some of the Commission's recommendations are supported by Farm Bureau policy. We commend actions to include nonprofit employees and new Federal employees within the program. We commend efforts to eliminate double dipping and to delay the cost of living adjustment for 6 months. But we don't believe that these points are enough. They cannot counterbalance the overwhelming weight of the report that works against the interests of farmers both as self-employed people and as employers.

I would like to highlight briefly the effect of the Commission recommendations on farmers as self-employed individuals, as employers and as beneficiaries.

Farmers constitute a significant percentage of self-employed people—14 percent. In 1978, which are the most recent figures we had, there were 1.1 million farmers out of a total of approximately 7.6 million self-employed people. The proposed OASDI tax rate for the self-employed, 100 percent of the combined employer-employee rate, will further reduce the net income of these farmers at a time when farmers already have severely low farm income.

If the acceleration of currently scheduled increases occurs in conjunction with the new combined rates is adopted, we have calculated that farmers would be faced with—or I should say self-employed people in general would be faced with an increase of approximately 30 percent in the OASDI rate.

Although an income tax deduction of one-half of the tax liability would become available to offset income, it is of little benefit to self-employed farmers who are in low tax brackets and who have little farm income.

Farmers are employers as well as being self-employed. Farmers employ approximately 2 million farmworkers. And when one considers that a farmer must pay his or her own self-employment tax, plus the employer's share for laborers, the effect of increased social security taxes becomes apparent. Farmers will be reluctant to hire new farmworkers and the local and national agricultural economies will continue to suffer.

Farmers are social security beneficiaries. Farm Bureau membership includes currently active farmers who are social security taxpayers and retired farmers who are social security beneficiaries. Although farmers now have access to retirement tools such as IRA's and Keogh plans, social security is an important pension plan for many retired farmers. This fact underscores Farm Bureau's commitment to an actuarially sound system that can be achieved only through stabilized benefits and realistic payroll tax structures.

Perhaps the most significant shortcoming we believe of the Commission report is its failure to adequately address necessary changes in the benefit structure of the system. We believe that the bulk of funding in the short term comes disproportionately through tax increases rather than reductions in the growth of benefits.

This past August our board adopted a program which we termed "freeze and fix." Under this program, COLA's for all Federal programs would be frozen for a 3-year period during which time Congress would be able to take a look at all the entitlement programs and make basic changes in the structures. For instance, in the social security program we would recommend indexing COLA's to the increase or decrease in wages rather than the Consumer Price Index.

In conclusion, we would ask the Senate Finance Committee to consider three changes to any legislative embodiment of the Commission report.

We would ask that the committee maintain the current differential for self-employment taxes, prevent the acceleration of currently scheduled rate increases, and freeze COLA's in the social security system for 3 years, and readjust the benefit structure.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Ms. Rice follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE SUBCOMMITTEE ON SOCIAL SECURITY
SENATE FINANCE COMMITTEE
REGARDING SOCIAL SECURITY FINANCING

Presented by
Grace Ellen Rice, Assistant Director, National Affairs Division

February 22, 1983

-- Summary of Farm Bureau's Comments and Recommendations --

The recommendations of the National Commission on Social Security Reform place a disproportionate share of financing the Social Security system shortfall on taxpayers, particularly self-employed individuals such as farmers.

Farmers will be confronted with increased taxes on two fronts. First, they will be faced with a new self-employment tax rate consisting of 100 percent of the combined employer-employee rate. Second, the acceleration in currently scheduled increases will mean higher employer contributions for farm employees.

Another major flaw in the National Commission's report is its failure to address the growth rate in Social Security benefits. Benefits cannot continue to increase at a rate faster than the growth of taxpayers' wages.

As the Senate Finance Committee examines the National Commission's report for inclusion in a legislative package, we urge the Committee to:

1. Maintain the current differential for self-employment taxes;
2. Prevent the acceleration of currently scheduled rate increases;
3. Freeze the COLAs in the Social Security system for three years during which time Congress would make basic reforms such as linking COLAs to a percentage of the annual decrease or increase in average wages.

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE SUBCOMMITTEE ON SOCIAL SECURITY SENATE FINANCE COMMITTEE REGARDING SOCIAL SECURITY FINANCING

Presented by
Grace Ellen Rice, Assistant Director, National Affairs Division

February 22, 1983

The American Farm Bureau Federation is the nation's largest general farm organization. Farm Bureau is organized in over 2800 counties and represents farmers who produce virtually every commodity grown on a commercial basis in this country. Farm Bureau members, who now number over three million member families in 48 states and Puerto Rico, participate in a comprehensive policy development program at the county, state, and national levels.

At the 64th annual meeting of the American Farm Bureau Federation held last month in Dallas, Texas, voting delegates of the member State Farm Bureaus adopted the following policy on Social Security:

Social Security

> The Social Security system is actuarially unsound. We support a freeze in Social Security benefits until Congress makes basic reforms in the Social Security program. We prefer stabilizing benefits rather than an increase in Social Security taxes. Benefits must be based upon an employee's contributions to the system. Any adjustment in Social Security benefits should be based on a percentage of the annual decrease or increase in average wages. We oppose any proposal to finance Social Security retirement income benefits out of general revenues or to exempt low income taxpayers from paying Social Security taxes because of the level of their incomes.
>
> We oppose the earned income restriction for those on Social Security.
>
> We recommend that employers and employees continue to share equally in the payment of Social Security taxes. We support the continuation of the separate deduction of FICA (Social Security) taxes to make them clearly identifiable.
>
> We urge that all employees, both in the private and public sector, be included in the Social Security program. We recognize each individual's right to participate in pension plans in addition to Social Security.

We urge Congress to separate the income supplement benefits in the Social Security program from the medical benefits. Medical program benefits should be separated from retirement benefits and funded with general revenues.

We recommend that the accumulated wage level of farm workers for Social Security deductions be increased from $150 to $1,000, and that the minimum days worked requirement be increased to 40 days. The accumulated income level should be indexed to all future increases in the federal minimum wage. We recommend that full-time students 17 years old and younger be exempted from Social Security withholding.

We oppose the payment of Social Security benefits to all convicted criminals who are serving sentences in federal and state institutions. We oppose Social Security payments to alien workers who reside outside the United States or its territories, but support U.S. citizens receiving payments wherever they live.

We urge correction of the inequity in the method of determining earnings of self-employed persons subject to Social Security taxes when substantial portions of these earnings are related to a return on their investment in business property. A rent equivalent should be made on allowable deduction from earnings for this purpose.

We oppose placing an imputed value on the work/services of the housewife and requiring the husband to pay Social Security taxes on that imputed value.

Social Security financing reform is among eleven issues approved by the American Farm Bureau Federation's Board of Directors as Farm Bureau's top legislative and regulatory priorities in 1983. The financial consequences of the report of the National Commission on Social Security Reform to farmers as self-employed business people cannot be over-emphasized, nor can the long-term effect of the Commission's failure to address the growth of Social Security benefits. Just as Farm Bureau seeks a balanced budget through reduced federal spending, rather than tax increases, we seek Social Security solvency through stabilized benefits rather than increased payroll taxes.

Some of the Commission's recommendations can be supported by Farm Bureau policy. We commend actions to include non-profit employees and new federal employees in the program. We commend efforts to eliminate double-dipping and delay the Cost of Living Adjustment (COLA), but these few good points are not enough. They cannot counterbalance the overwhelming weight of the report that works against the interests of farmers, both as self-employed individuals and as employers.

FARMERS AS SELF-EMPLOYED BUSINESS PEOPLE

Farmers constitute a significant percentage of self-employed individuals (14 percent). The most recent figures available to us from the Internal Revenue Service and the Social Security Administration indicate that in 1978 there were 1.1 million farmers out of a total of approximately 7.6 million self-employed people. The average annual net income of these farmers was $7,400. Another 300,000 farmers had both farm and non-farm self-employment income.

The proposed Old Age, Survivors', and Disability Insurance (OASDI) tax rate for the self-employed (100 percent of the combined employer-employee rate) will further reduce net income at a time when farmers already have severely low farm incomes. For example, the current tax rate for self-employed individuals is 8.05 percent or approximately 75 percent of the combined employer-employee rate. If the proposed combined employer-employee rate for the self-employed is enacted, the rate would rise to 10.8 percent in 1984. If the acceleration of currently scheduled increases occurs in conjunction with the new rate, self-employed people would be faced with a rate of 11.4 percent. This would represent a 40 percent increase in the OASDI rate for the self-employed. Although an income tax deduction of one half of the tax liability would become available to offset income, it is of little benefit to self-employed farmers who may have little farm income.

Even without the new self-employment rate and the rate acceleration, some self-employed individuals will find themselves paying increased taxes in 1983 because the taxable wage base continues to rise. The wage base increased from $32,400 in 1982 to $35,700 in 1983. This increase means that maximum taxes rose from $3029.40 to $3337.95--an increase of $308.55 or ten percent.

FARMERS AS EMPLOYERS

Farmers are the employers of over 2 million farm workers. According to U.S. Department of Agriculture statistics, in 1977, 350,000 farmers had a workforce of 2.4 million farm employees covered under Social Security. The average number of workers reported by an employer was nine. When one considers that a farmer must pay his/her own self-employment tax and the employer's share for laborers, the effect of increased Social Security taxes becomes apparent.

Although the proposed increase in the contribution rate for employers and employees would accelerate "only" .3 percent in 1984, it cumulatively represents a large increase for farm employers. In addition, the Commission's recommendation to provide a refundable tax credit to employees, but not employers, to compensate for the accelerated tax increases in 1984, destroys the parity that currently exists between the employer-employee contributions. Farm Bureau policy speaks directly to this recommendation by supporting equal contributions. The denial of the credit to employers is not equitable.

FARMERS AS SOCIAL SECURITY BENEFICIARIES

Farm Bureau membership includes currently active farmers who are Social Security taxpayers and retired farmers who are Social Security beneficiaries. Although farmers now have access to retirement tools such as Individual Retirement Accounts and Keogh Plans, Social Security is an important pension plan for many retired farmers. This fact underscores Farm Bureau's commitment to an actuarially sound Social Security system that can be achieved only through stabilized benefits and a realistic payroll tax structure.

BENEFIT GROWTH MUST BE ADDRESSED: "FREEZE AND FIX"

Perhaps the most significant shortcoming of the Commission report is its failure to address necessary changes in the benefit structure of the Social Security system. The bulk of the funding in the short term of 1983-1989 comes disproportionately through tax increases rather than reductions in the growth of benefits.

The recommended six month COLA delay and the proposed plan to link COLA's to the lower of the increase in the Consumer Price Index or wages in 1988 if the fund ratio falls below 20 percent are starting points for the re-examination of the benefit structure. They, however, fall far short of any meaningful reform that could restore solvency of the trust funds.

In August, 1982, the American Farm Bureau Federation Board of Directors adopted a policy designed to get at the heart of benefit growth in all federal entitlement programs. Known as "Freeze and Fix", this plan calls for a three-year freeze in COLAs for all federal programs, including Social Security. During the three-year freeze period, Congress would have the responsibility to fix the flaws in the benefit structures. Farm Bureau recommends reducing the growth rate in entitlement programs by linking COLAs to the increase or decrease in wages rather than prices. This type of modification would promote a more equitable burden-sharing between beneficiaries and taxpayers; and would allow for growth of benefits, but not at a rate faster than the wages of taxpayers who must finance the Social Security program. Benefits would not be cut but the growth rate would be.

CONCLUSION

Recent news reports indicate that the Social Security shortfall may be more severe than originally forecast by the National Commission. Thus, it becomes more imperative and more timely for Congress to rescue the system, not just from its financial difficulty, but from the political environment that has paralyzed Congress in recent years. Members of Congress were elected to make difficult decisions and as voters we expect the responsible use of our resources as taxpayers.

Farm Bureau re-emphasizes its commitment to a sound Social Security system by recommending a freeze in benefits until Congress makes basic reforms in the program. In the interim, we seek a reduced benefit growth rate, not a benefit cut, for beneficiaries. Long term reforms will require separating retirement from welfare functions and re-establishing a reasonable benefit return compared to tax contributions.

As the Senate Finance Committee examines the National Commission's report for inclusion in a legislative package, we urge the Committee to:

1. Maintain the current differential for self-employment taxes;
2. Prevent the acceleration of currently scheduled rate increases;
3. Freeze the COLAs in the Social Security system for three years during which time Congress would make basic reforms such as linking COLAs to a percentage of the annual decrease or increase in average wages.

Thank you for your careful consideration of Farm Bureau's statement.

STATEMENT OF WILLIAM DENNIS, DIRECTOR OF RESEARCH, NATIONAL FEDERATION OF INDEPENDENT BUSINESS, WASHINGTON, D.C.

The CHAIRMAN. Mr. Dennis.

Mr. DENNIS. Thank you, Mr. Chairman. I would ask that my entire statement be inserted in the record.

The CHAIRMAN. All the statements will be made a part of the record.

Mr. DENNIS. Thank you.

[The prepared statement of Mr. Dennis follows:]

NFIB National Federation of Independent Business

STATEMENT OF

WILLIAM J. DENNIS, JR.

DIRECTOR OF RESEARCH
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Before:	Senate Finance Committee
Subject:	National Commission Recommendations and Related Measures
Date:	February 23, 1983

Mr. Chairman, NFIB, on behalf of its more than 500,000 small and independent member businesses, appreciates the opportunity to present our views on some important problems of the Social Security system and the recommendations provided by the National Commission on Social Security Reform.

Small business has a vital interest in Social Security. This interest is not only a function of the benefits small employers and their employees hope to draw at some future date, but also of the fact that a majority of small businesses now pay more in payroll taxes (of which FICA is far and away the largest) than any other form of taxation.

The National Commission Recommendations

While our subsequent comments on the Commission's recommendations accentuate the negative, we think it important to note at the outset that there are recommendations with which we concur. We have mentioned some of them in our remarks. Further, we understand that the immediacy of the short-term problem limits the alternatives available. However, the "consensus package" of recommendations produced by the National Commission lacks policy consistency. Parts don't hang together; various elements are contradictory; mirrors sometime appear to be used; and the package almost completely ignores inter and intragenerational equity problems.

The best example of these liabilities can be found in a single provision--the taxation of benefits. That part of the package makes one-half of Social Security retirement benefits taxable if an individual has $20,000 or more of other income ($25,000 or more for a couple). The amount of revenues generated from this new tax liability are then returned to the OASDI fund rather than to general revenues of the Treasury as would normally be the case.

While taxation of benefits has less parochial interest for small business than other portions of the package, it has been less than two years since a major expansion in the attractiveness of Individual Retirement Accounts (IRAs). The policy objectives behind IRA expansion were: 1) to encourage more people to save greater amounts for retirement; and 2) to increase the national savings rate. Those were bona fide objectives, and the results seem to indicate that the IRA vehicle for achieving those objectives has been successful. However, taxation of benefits as proposed by the Commission runs contrary to that policy. Instead of encouraging people to save for retirement, the recommendation discourages them--at least from saving too much. So, what is the Federal policy toward saving for retirement? Is it the one which enjoyed bipartisan support in 1981 and gradually filtered into both major versions of the tax bill, or is it the one which now allegedly enjoys bipartisan support in the consensus package?

The rationale for this change is that current beneficiaries receive a large windfall (social transfers); these windfalls are not needed by the relatively wealthy elderly, runs the argument, and taxing benefits allows the Treasury to recover some of the money. It is, of course, clear that there are enormous windfalls being granted current beneficiaries. While one must wonder why such a circuitous and inefficient means of eliminating social subsidies to relatively wealthy retirees has been recommended, it must be emphasized that future generations of retirees not only will never receive windfalls; they are also guaranteed a negative return on their Social Security investment. Further, since the $20,000 and $25,000 figures are not indexed, the practical effect is to have the real dollar figure creep lower and lower precisely as windfalls are drying up and negative returns are becoming the order of the day.

Finally, a general revenue is a general revenue is a general revenue--no matter what the Commission calls it. Funneling the new receipts resulting from benefit taxation into the OASDI is employment of general revenues any way you cut it. It's not that NFIB is opposed to general revenues. We are not, and under particular conditions we favor them. Our questions stem from the fact that general revenues are being brought in through the "back door" without consideration of alternative revenue sources, the eventual size of the general revenue component, etc., etc.

While the tenor of the recommendations is questionable, specifics are as well. The most important of these for small business is the $40 billion in new payroll taxes (almost $60 billion with SECA).

Our entire system of Federal taxation is gradually shifting toward a head tax on labor. Approximately one-third of all Federal revenues collected (excluding borrowing) now originates from the payroll tax in contrast to less than 15% just 25 years ago. Between 1970 and 1990, there has been or is currently scheduled in law 9 FICA rate hikes, 20 FICA base hikes, 3 FUTA rate hikes, and 3 FUTA base hikes. During that 20 year period, the maximum tax on an employee will have risen from $470 to $5070. For a more typical employee, one earning $8,000 in 1970 and $25,000 in 1990, Federal payroll taxes will have risen from $470 to $2,346. That means a small employer, hiring 10 people, would have had a tax increase of $18,760--more than the cost of one additional employee.

While this single employee from a macro perspective may appear inconsequential, it is important to remember that there are well over three million small employers. Thus, the macro effect of these increases is hardly inconsequential. In fact, of the five simulations of alternative tax policy directions produced by DRI and Wharton for Business Week, the simulation accelerating payroll (FICA) taxes resulted in the highest unemployment rate and the lowest rate of real GNP growth.1/

Another payroll tax increase can be found in SECA. While it is difficult to argue that someone paying a 75% share of taxes should receive a 100% share of benefits, it is clear that self-employed people receive unequal tax considerations (in the opposite direction) in other areas. A self-employed person is half employer and half employee, and should be treated as such. Thus, while it might be reasonable to charge such a person the employer and employees' share of FICA, a self-employed person should be able to deduct the employer's share (1/2) of FICA taxes, private health insurance premiums, etc. It has been suggested that if a SECA hike were adopted, a credit of some kind rather than a deduction be provided. Clearly the credit provides the self-employed a "better deal" in the short run. But in the long run, just the opposite will occur because reasonable deductibility questions can then be avoided and equally legitimate claims for credits from other sectors will be entertained.

The Commission also recommended a tax credit be given employees to cover the 1984 payroll tax increase. While temporary in nature, the credit creates a terrible precedent by: 1) breaking the traditional employer-employee cost sharing arrangement; and 2) providing an example for other groups who may advance legitimate claims for similar treatment. (The parallel between our views on this point and the one made in the previous paragraph should not be lost.)

NFIB supports the inclusion of all new Federal employees at a minimum--inclusion of all non-vested Federal employees is preferable. The equity argument is simply too compelling to adopt any other course. On a sloganeering level, the argument runs "if its good enough for the public, it's good enough for the public employees". But beneath that veneer, there is a considerably more substantive argument beyond the so-called "double dipping" question. Current retirees receive large social subsidies from the current generation of FICA taxpayers. Since Federal employees do not participate in the system, they do not contribute to the subsidization of the elderly inherent within the existing benefit structure. Thus, there is an anomalous situation of a relatively wealthy group of taxpayers being exempt from support of the nation's largest social welfare program.

Incorporating non-vested Federal employees, it will be argued, is not fair because these individuals will have received no Social

Security credit for the non-covered period of their Federal service. That argument has some legitimacy, but it is not insurmountable--quite the contrary. If a wage credit is provided, similar to one recommended by the Commission for the credits given the non-covered service of military personnel, then the equity argument based on that perspective is eliminated. Since the Commission did not include such an option among their working papers, we cannot provide a revenue estimate. However, the addition of non-vested Federal employees is $8 billion plus the credit.

There will be a need for benefit cuts as part of the overall short-term package. The question, of course, is how they can be achieved with minimal inconvenience to the elderly. In this regard, it is important that representatives of the elderly provide guidance. The Commission has made certain recommendations to cut the COLA.

Alternatives are, of course, available. For example, CPI-2% in combination with something else, a pro-ration of a new beneficiaries COLA, etc. The combinations are seemingly endless.

Finally, the "consensus" recommendations did not cover either the long-term or short-term deficit. The long-term needs no further elaboration--anywhere from 0.6 to 0.9% of payroll needs yet to be covered. However, the short-term numbers, though alleged to cover the short-term deficit, seem strange. While we are certainly open to correction, consider the following: even if we assume the $168 billion is a sufficient aggregate amount to cover the 1983-89 period, a cash-flow problem would still seem to exist. The financing problem comes early in that seven year period--particularly in '83, '84 and '85. By '88 and '89, revenues begin to approximate expenditures. Yet 47% of all deficit reduction measures are "backloaded"; they have been placed into '88 and '89. That would appear to mean the earlier period is short, and I know of no one wanting to repeat this exercise in the next two or three years.

Since NFIB believes that the ultimate solution to the problem lies in separating the annuity and transfer components of the program, movement toward the long-term influences our view of the short-term financing problem. Thus, if given the choice between $40 billion in payroll taxes and $40 billion in general revenues directed toward funding the social subsidy part of the program, we would clearly choose the latter.

Raising the wage base beyond indexed increases rather than the tax rate has drawn little attention this year. In a choice between the two, it is clear that small business does better by wage base increases. The reason is that small firms employ relatively fewer people earning more than the base. The problem with the base increase, however, is that it takes us further from the long-term objective of tiering contributions and benefits more closely. Thus, we would prefer alternatives to either rate or base hikes.

The Commission's long-term recommendations are essentially a residual of its short-term recommendations. In other words, most of the short-term deficit reduction measures have a long-term effect, and that long-term effect constitutes virtually the sum of the Commission's long-term suggestions. The primary exception is the lesser of prices or wage with a recapture (COLA change), a cash management provision rather than one resolving any finance or equity question. (The delayed retirement bonus is an important substantive change.) As a result, the Commission's long-term recommendations structurally change nothing beyond that which has been suggested for the '83-'89 period. NFIB feels this timidity inappropriate, avoiding rather than addressing serious problems.

A Long-Term Reform Proposal

Currently, Old-Age and Survivors Insurance (OASI), the best-known part of social security, combines annuity and transfer elements. That is, only a part of the benefits currently paid under OASI to retired persons and survivors represents a "return" on wage and self-employment taxes historically paid by beneficiaries. The rest of OASI benefits, by contrast, aren't "earned"; they are in excess of the amount retired persons would be receiving had they saved rather than paying taxes, and bought annuities with those savings. Such unearned benefits are the policy equivalent of pure transfer payments.

As has been pointed out at length elsewhere, this mixing of elements, in addition to being conceptually degenerate, confuses policy and misallocates the burden of social transfer costs. In particular, funding of a transfer program--as opposed to an actuarially fair insurance program--from the wage tax is inappropriate. Participants in an insurance program should pay only for what they receive and receive only what they paid for. Transfers should be funded by universal taxes. Under the present system, by contrast, wage earners bear the special burden of a substantial income transfer program for the elderly.

This reform proposal would replace the current mixed arrangement with properly separated (and separately financed) insurance and transfer programs. Taxpayers, upon retirement, would receive an actuarially fair annuity equal in principal amount to the sum of their historical wage taxes, the taxes paid on their wages by employers (and self-employment taxes), plus interest. Under the Social Security--Entitled Annuity Insurance (EAI) program, retired people would receive exactly what they paid for. Such EAI payments would be financed by current payroll taxes, which would fund only earned annuities--and so be freed of the burden of a transfer program. Elderly taxpayers (and dependents of deceased taxpayers) with inadequate resources would have their incomes supported by a separate transfer program--Supplemental Retirement Benefits--a program which can focus on the needs of the elderly poor, not conceptually unlike the current SSI program. These, like any other transfers, would be funded by general revenues.

The EAI program would replace OASI for persons retiring on or after January 1, 1993. Supplemental Retirement Benefits (SRB) would first become available on that date, substituting for present Supplemental Security Income (SSI) benefits. Present Disability Insurance (DI) and Heath Insurance (HI) would be unchanged, as would SSI benefits to the blind and disabled.

To be more specific: under the reform plan, any former taxpayer aged at least 62 who retires after 1992 will have the right to EAI annuity payments. The principal amount of the annuity will be taxes actually paid with respect to each individual's historical wages and self-employment income, plus interest, minus a pro rata share of EAI administrative expenses. This right, which may not be transferred, is to be automatically exercised through one of two forms:

Single Life Annuity (to be assigned non-married beneficiaries) -- payment ceases upon the beneficiary's death.

Joint-Survivor Annuity (to be assigned married beneficiaries) -- payment ceases upon the beneficiary's death or that of his spouse, whichever is later.

Payment levels will be determined actuarially based on principal amount and life expectancy; the present values of the two annuities will be the same for any individual at the time of retirement. In substance, EAI is indistinguishable from an annuity obtained in the open market.

Beginning January 1, 1993, payments to EAI annuitants and to OASI beneficiaries will be made from the EAI Cash Reserve. The Reserve will receive the assets of the Federal OASI Trust Fund, undertake its obligations, and become the recipient of wage and self-employment taxes. Appropriate adjustments will be made in the variable EAI tax rate so as to maintain the Reserve (which will consist of cash and interest-bearing government securities) at a level keyed to anticipated payments--specifically, assets will be kept above the projected needs for the next 3 months and below projected outlays for the next 12 months, excepting particular circumstances outlined below.

Since it will undertake the liabilities of OASI Trust Fund, the Reserve will for a long time be obliged to make OASI payments that include a substantial transfer element. The principle of separating insurance and transfer programs requires that the wage tax not fund this portion of the Cash Reserve's payments. Accordingly, the reform plan includes an appropriation to the Cash Reserve of funds equal to the transfer component of OASI payments.

Current Social Security law requires the maintenance of records of the earnings of all persons receiving wages and self-employment income. Under the reform proposal, this is extended to calculating the taxes paid thereon by employers, employees and the self-employed. These amounts will be added to an Individual Account for every person, which will be used to determine the principal amount of his EAI annuity.2/ However, in the case of legally married persons, one-half of these amounts will be added to the Individual Account of the spouse of the individual by whom and for whom the tax has been paid, and one-half of these amounts will be subtracted from the Individual Account of the individual by whom and for whom the tax has been paid--a procedure that continues unless there is a legal dissolution of the marriage.

Each year, every Individual Account will be credited with interest (approximately 2% real interest per annum) and debited a proportional amount of that year's EAI system administrative expenses. Also, at the time a taxpayer files for an EAI annuity, he will be credited with actuarially projected interest on the declining balance of his account.

Under the NFIB proposal, wage and self-employment taxes will support only the insurance system, not the transfer payments. Accordingly, employment taxes will be adjustable, set to keep the Cash Reserve at an appropriate level (between 3 and 12 months of projected payments). Cash Reserve levels will be monitored and, should receipts be too high or too low, the President, subject to one-House veto, will announce a new employment tax rate for the coming year. If his proposal is vetoed, the previous year's rate will continue in effect, subject, of course, to Congress's plenary law-making power.

To forestall any possibility that payroll tax rates would begin a downward spiral, thereby effectively causing the program to "self-destruct," a wage tax floor has been established. Regardless of the Cash Reserve's level, the wage tax could not fall below 6% - of taxable payroll 3% for employers and 3% for employees--and a comparable rate for the self-employed.

Other changes are also made in the tax laws. The self-employed will pay twice the employer's rate, rather than 150 percent of it, but half the payment is deductible. Beginning in 1984, new federal workers will constitute covered employees for wage tax purposes. No change is made, however, in the tax base or tax procedures, except that EAI taxes will be separately identified on W-2 forms. Persons aged 65 or more and receiving EAI benefits will not pay EAI taxes.

As noted above, current OASI payments include a substantial transfer element. EAI payments will include no such elements, and the transfer component of OASI payments made out of the EAI Cash Reserve will be funded by general revenues. This transition from transfer funding by wage taxes to transfer funding by progressive income taxes will be phased in during the nine-year period from 1984 to 1993. In each of these transition years, wage taxes will be reduced by one-ninth of the overall transfer component,3/ so that by January 1, 1993, wage taxes will bear only the insurance costs. The transfer element will be borne by appropriations to the OASI Trust fund from general revenues.

Former taxpayers with resources below the Supplemental Retirement Benefit Ceiling who are 65 or over, or persons who are under 18 or over 55 and were dependents of a deceased taxpayer, are eligible, upon application, for Supplemental Retirement Benefits. Such benefits will be funded by general revenues. Resources are determined on the basis of money income, a new measure designed to estimate an individual's true purchasing power.

Benefit levels depend on income levels. Those below the Supplemental Retirement Benefit Base receive a full SRB payment, a payment which varies with the number of dependents and is indexed. Recipients whose income is below the Ceiling and above the Base receive a partial SRB payment, which is a full payment minus one-half the excess of their incomes over the Base.

Base and Ceiling levels are phased-in. While the Base is always $2,500 below the Ceiling, the Ceiling (and hence the Base) declines over a transition period beginning in 1993. The Ceiling and Base decline in annual steps thereafter until the final level is reached (Base = $2,000 1984 equivalency).

The SRB Base, Ceiling, and Benefit are to be inflation-indexed. Accordingly, the reform plan provides for a Retirement Price Index, so as better to measure changes in the price level that specifically affect retired persons. The RPI will be calculated on the basis of methods established by a Commission of prominent economists. Whenever the RPI changes by three percent or more, a corresponding change will be made in the Base, Ceiling and Benefit. The SRB system is a straightforward program of income support for the elderly.

Advantages of the Proposal

The following is an abbreviated list of the advantages inherent in the reform proposal:

1. benefit equity--individuals in all generations and in all groups would be treated identically in the program's annuity portion. This is in sharp contrast to the mixture of "good deals" and "bad deals" unrelated to contributions, which is intrinsic to the existing benefit structure.

2. social subsidies are directed to the poor only--under the current benefit structure, social transfer payments are extended to beneficiaries regardless of need. The resulting subsidization of the relatively wealthy elderly means the problems of the needy poor are insufficiently addressed at the same time the system's entire cost mounts geometrically. Under the reform proposal, social subsidies are directed to the needy elderly only through the social subsidy portion of the program.

3. reduced payroll taxes--SSA estimates that when the baby boom generation retires, OASI payroll taxes alone will reach over 15% of taxable payroll unless there are changes. Payroll taxes are clearly regressive and create disincentives for employment. The proposed reform would reduce the payroll tax over time to 6%, though it would rise somewhat after that.

4. progressive tax support for social subsidies--the proposed reform would pay for social subsidies to the elderly through general revenues derived principally through personal and corporate income taxes. Most consider that the fair and equitable way to finance such a function. In contrast, excepting SSI, social subsidies for the elderly poor are financed through regressive payroll taxes of the 90+% of workers participating in the system. Those who do not participate do not pay taxes to support the elderly poor.

5. benefit protection floor--while discussion of "replacement ratios" under the reform is largely inappropriate due to the restructuring, retired workers aged 65, contributing 40 years, and entitled to 2% real interest would have a minimum replacement ratio of about 25% as a floor.

6. strengthens the "earned right"--since annuity benefits would be based on contributions, the idea of Social Security as an earned right would be strengthened, and properly so. The earned right argument is now very difficult to make with such large social transfer elements in the benefit structure.

7. women's concerns--by providing "split units of account," the reform proposal treats the marriage relationship as an economic unit. If for some reason a marriage dissolves, both partners would have contributed equally during the period for purposes of the annuity program. Currently, a marriage is not treated as an economic unit; each partner is an individual entity.

8. public confidence--public opinion polls demonstrate substantial support for Social Security but significant concern, particularly among the young, that many current taxpayers will not receive any benefits when they retire. The "no benefits" idea is, of course, erroneous, but it does have some basis--the fact is, many future retirees will receive a negative return. Altering that fact,

as the reform proposal does, and resolving the long-term financing problem, as the reform does, will foster public confidence in the program's efficacy.

9. improved condition of poor elderly--The poorest elderly (just under 10%) are usually eligible for SSI--the current elderly direct support program. Eligibility criteria are rigid, and the benefit (depending on state supplements) is often less than $150/month. The reform liberalizes eligibility standards considerably and almost doubles existing benefits.

10. reduction in total expenditures--the proposed reform is not magic, but there are significant changes which allow lower expenditures to occur. By reducing payroll taxes, future annuities are reduced (although they are maintained at a floor level). The difference is then divided among the poor (in the form of higher benefits) and among the taxpayers (in the form of lower taxes).

The proposed reform does involve substantial changes in the current Social Security program. Given the looming financial problem and the controversy surrounding it, the obvious question then becomes, why should a larger undertaking of this nature be attempted now? Even if the merits of the proposal are overwhelmingly positive, as they indeed are, why can't we wait?

The abbreviated answer can be found in the existence of our present problem. In 1977, we avoided long-term restructuring and went for the quick fix. Now we are paying for it, both figuratively and literally. Since most would prefer not to act upon the system's problems unless absolutely forced to do, the present situation provides a unique opportunity--particularly in light of the apparent bi-partisan nature of the current proceedings. Further, the logic of the reform proposal and its incorporation of ideas most Americans feel fair and equitable would give the Social Security system an immediate boost in the confidence it so badly needs.

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ENDNOTES

1/ The other althernatives were:

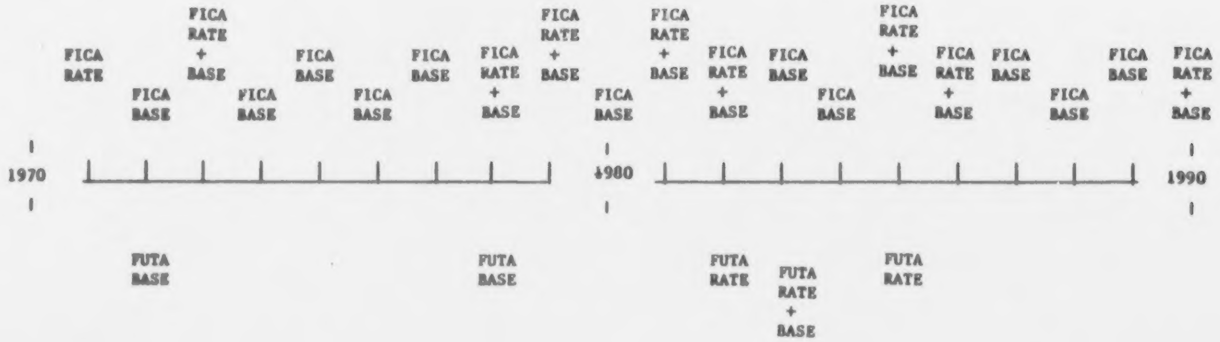
a) no change in taxes,
b) July 1, 1983, tax cut cancelled
c) indexation of personal income taxes eliminated, and
d) July 1, 1983, tax cut moved up to January 1.

2/ Both OASI taxes paid before January 1, 1993, and EAI taxes paid thereafter (but not DI or HI taxes) will be credited.

3/ The transfer component is that portion of current benefits in excess of historical contributions by and on behalf of current beneficiaries (including contributions by now-deceased persons whose wages are the basis for others' benefits), plus interest.

NFIB® National Federation of Independent Business

A TWENTY YEAR HISTORY OF FEDERAL PAYROLL TAX INCREASES *


1970
FICA RATE
FICA BASE
FICA RATE + BASE
FICA BASE
FICA BASE
FICA BASE
FICA BASE
FICA RATE + BASE
FICA RATE + BASE
1980
FICA BASE
FICA RATE + BASE
FICA RATE + BASE
FICA BASE
FICA BASE
FICA RATE + BASE
FICA RATE + BASE
FICA BASE
FICA BASE
FICA BASE
1990
FICA RATE + BASE
FUTA BASE
FUTA BASE
FUTA RATE
FUTA RATE + BASE
FUTA RATE

Summary

FICA Rate - 9 increases	totaling	60%
FICA Base - 19 increases	totaling	677%
FUTA Rate - 3 increases	totaling	94%
FUTA Base - 3 increases	totaling	133%

FICA = Social Security Taxes
FUTA = Unemployment Taxes

* includes legislated increases

A TWENTY YEAR HISTORY OF
FEDERAL PAYROLL TAX INCREASES--ILLUSTRATED*

	1970	1980	1990	Twenty Year Increase
John Doe				
Wages-Salary	$ 6,000	$12,000	$18,000	$12,000 (200%)
Payroll Taxes	$672	$1,664	$3,188	$2,516 (374%)
Employer's Share	($384)	($928)	($1,811)	($1,427) (272%)
Employee's Share	($288)	($736)	($1,377)	($1,089) (278%)
Jane Doe				
Wages-Salary	$10,000	$17,500	$25,000	$15,000 (150%)
Payroll Taxes	$844	$2,338	$4,259	$3,415 (405%)
Employer's Share	($470)	($1,265)	($2,347)	($1,877) (399%)
Employee's Share	($374)	($1,073)	($1,913)	($1,539) (411%)
Larrymoe Andcurley				
Wages-Salary	$20,000	$40,000	$60,000	$40,000 (200%)
Payroll Taxes	$844	$3,368	$9,614	$8,770 (939%)
Employer's Share	($470)	($1,780)	($5,024)	($4,554) (869%)
Employee's Share	($374)	($1,588)	($4,590)	($4,216)(1027%)

* Includes legislated increases

Mr. DENNIS. As I proceed, I would like to draw your attention to the table on the last page. And if you are so inclined, the page before. They illustrate some of the things that I would like to address.

Our entire system of Federal taxation is gradually shifting toward a head tax on labor. Approximately one-third of all Federal revenues collected, excluding borrowing, now originates from the payroll tax in contrast to less than 15 percent just 25 years ago.

Between 1970 and 1990 there has been or is currently scheduled in law, nine FICA rate increases, 19 FICA base increases, three FUTA rate hikes, and three FUTA base hikes. During that 20-year period, the maximum tax on an employee will have risen from $470 to $5,070. For a more typical employee, one earning $8,000 in 1970 and $25,000 in 1990, Federal payroll taxes will have risen from $470 to $2,346. That means a small employer hiring 10 people would have had a tax increase of $18,760 over the period, more than the cost of 1 additional employee.

While this single employee from a macroperspective may appear inconsequential, it is important to remember that there are well over 3 million small employers. Thus, the macroeffect of these increases is hardly inconsequential.

From a purely parochial perspective, small business is concerned about payroll taxes for the following reasons: One, we tend to be more labor intensive than are larger firms. Therefore, our payroll tax liability tends to be larger.

Two, we have fewer employees above the wage base, meaning a greater percentage of the payroll is taxed.

And, three, the deductibility of FICA taxes at the 17-percent level, for example, is certainly less valuable than one at the 46-percent level.

Regarding the Commission package, we would support the deduction rather than the credit in SECA, which is something that I certainly would like to get into a little bit later. We also support the inclusion of Federal employees.

The Commission's long-term recommendations, though are essentially a residual of its short-term recommendations. In other words, most of the short-term deficit reduction measures have a long-term effect. And that long-term effect constitutes virtually all of the Commission's long-term suggestions. The primary exception is the lesser of prices and wages with a recapture, a cash management provision, rather than one resolving any financial or equity question. The delayed retirement bonus is an important substantive change.

The Commission's long-term recommendations structurally change nothing beyond that which has been suggested for the 1983–89 period. NFIB feels this timidity inappropriate, avoiding rather than addressing serious problems.

Currently, old age and survivors insurance, the best known part of social security, combines annuity and transfer elements. That is, only a part of the benefits currently paid under OASI to retired persons and survivors represent a return on wage and self-employment taxes historically paid by beneficiaries. The rest of OASI benefits by contrast are unearned. They are in excess of the amount retired persons would be receiving had they saved rather than paying taxes and bought annuities with those savings.

Such unearned benefits are the policy equivalent of pure transfer payments. As has been pointed out at length elsewhere, this mixing of elements, in addition to being conceptually faulty, confuses policy and misallocates the burden of social transfer costs. In particular, funding of a transfer program as opposed to an actuarially fair insurance program from the wage tax is inappropriate. Participants in an insurance program should pay only for what they receive, and receive only what they pay for. Transfers should be funded by universal taxes. Under the present system by contrast, wage earners bear the special burden of substantial income transfer programs for the elderly. We should replace the current mixed arrangement with properly separated and separately financed insurance and transfer programs.

I would conclude, Mr. Chairman, by saying that we are inordinately concerned over the long term. We sincerely hope that the committee and the Congress will take it upon itself to resolve this problem once and for all.

Thank you very much.

The CHAIRMAN. Thank you.

STATEMENT OF DR. JACK CARLSON, EXECUTIVE VICE PRESIDENT AND CHIEF ECONOMIST, NATIONAL ASSOCIATION OF REALTORS, WASHINGTON, D.C.

The CHAIRMAN. Dr. Carlson.

Dr. CARLSON. On behalf of over 600,000 members of the National Association of Realtors, we recommend support for the Commission's compromise, and commend the work of the Commission's members who are on this Committee.

We recommend that other provisions be identified to close the entire gap between receipts and benefits, including indexing retirement age to life expectancy, and modestly limiting cost of living adjustments. The trust fund must be made whole in fairness to all Americans.

However, we strongly recommend an important technical change. Either the tax rate on self-employed workers be increased only by the same percent as employee workers or the proposed 50-percent deductibility of the self-employed tax be changed to a 25-percent tax credit, a proposal the Commission itself considered as a reasonable alternative.

The reasons for recommending this technical change are: One, the self-employed workers may be already paying enough taxes to cover their anticipated benefits in sharp contrast to other participants. This occurs because self-employed workers pay in taxes for a longer period of time and draw benefits for a shorter period of time.

Two, the tax increase for self-employed workers would increase their tax burden by 20 to 40 percent or $300 to $600 more taxes in 1984, and each and every year in the future, typically $3,600 during a 10-year period. In sharp and unfair contrast, employee workers or employers would not pay any new tax increases until and only during 1988, and 1989, and then only tax increases of 0.3

percent, or $65 for each of 2 years, $130 in 10 years, less than 4 percent of the increase proposed for self-employed.

The resulting tax burden would be greater on those least able to pay; namely, lower income workers. Forty-two percent for the lowest taxpayers, 6 percent or even lower for operating income taxpayers. Self-employed workers would be hurt in every State. And just choosing some States at random, in the case of Kansas, 108,905 self-employed would pay during this 7-year period $164.5 million. Another random State—in the case of New York, 402,160 self-employed, the taxes they pay above their employee counterparts would be $607 million.

The smallest of small business would be handicapped. They already have no unemployment benefits which is subsidized by low interest Government loans. They have no limited liabilities. Their personal assets are on the line. Their health insurance is not deductible. Their effective tax rate is 18 percent; for corporations 33 percent. Thereby, deductibility is twice as valuable to the corporation.

Business concentration would increase. The dream of self-employment for many Americans should be encouraged; not discouraged. And then if energetic workers must be encouraged and not discouraged, and they choose self-employment—many different examples, the land camera, the automatic processing camera. And it's not that these people have taken advantage of the self-employment category. It has gone from 14 percent to 8 percent of the work force. And in a gradual recovery, you wouldn't want to discourge these folks.

The self-employed worker should be allowed to work and continue with a full and productive life beyond age 60, 62, or 65. Self-employment seems to be the avenue for that. And women would be treated most unfairly under this self-employment tax increase.

In conclusion, we petition this Commission to change from the proposed 50-percent deduction of self-employed taxes to a 25-percent tax credit. The revenue consequences are displayed in our tables 7 and 8 on pages 9 and 10.

The CHAIRMAN. Thank you.

[The prepared statement of Dr. Carlson follows:]

STATEMENT
on behalf of the
NATIONAL ASSOCIATION OF REALTORS®
regarding
RECOMMENDATIONS OF THE NATIONAL COMMISSION
ON SOCIAL SECURITY REFORM
before the
SENATE COMMITTEE ON FINANCE
by
DR. JACK CARLSON
February 22, 1983

I am Jack Carlson, Executive Vice President, Executive Officer, and Chief Economist of the NATIONAL ASSOCIATION OF REALTORS®.

On behalf of the over 600,000 members of the National Association, the nation's largest trade association, we greatly appreciate the opportunity to submit our views on the financing of the Social Security System.

The National Commission on Social Security Reform (Commission) proposed a combination of ways to close one-half to two-thirds of the gap between receipts and benefit payments in the Social Security program.

RECOMMENDATIONS

We recommend support for the Commission's compromise. We recommend that other provisions be identified to close the entire gap between receipts and benefits. The Trust Fund must be made whole in fairness to all Americans.

However, we strongly recommend an important technical change: EITHER THE TAX ON SELF-EMPLOYED WORKERS BE INCREASED ONLY BY THE SAME PERCENTAGE AS EMPLOYEE WORKERS OR THE PROPOSED 50% DEDUCTIBILITY OF THE SELF-EMPLOYED TAX BE CHANGED TO A 25% TAX CREDIT, A PROPOSAL THE COMMISSION ITSELF CONSIDERED AS A REASONABLE ALTERNATIVE.

The reasons for recommending this technical change are:

(1) The self-employed workers are already paying enough taxes to cover their anticipated benefits, in sharp contrast to other participants.

(2) The tax increase for self-employed workers would increase their tax burden by 20 to 40%, or $300 to $600 more taxes in 1984 and in each and every year in the future, $3,600 in 10 years. In sharp and unfair contrast, employee workers or employers would not pay any new tax increases until and only during 1988 and 1989 and then only tax increases of 0.3 percent, or $90 for two years, $180 in 10 years.

(3) The resulting tax burden would be greater on those least able to pay, namely, lower income workers.

(4) Self-employed workers would be hurt in every state.

(5) The smallest of small business would be handicapped.

(6) Business concentration would increase.

(7) The dream of self-employment for many Americans should be encouraged not discouraged.

(8) Inventive and energetic workers must be encouraged, not discouraged.

(9) Self-employed workers should be allowed to work and continue with a full and productive life beyond age 60 or 65.

(10) Women would be treated most unfairly.

DISCUSSION

1. Self-employed workers already pay their own way

We contacted the Social Security Administration directly and through Members of the Congress and learned that they had not bothered to collect data on whether large categories of workers are paying enough into programs that they can expect to receive benefits from. However, we obtained data from other government sources to convince us that the self-employed are likely paying their fair share, enough to cover anticipated benefit payments. This occurs because self-employed workers pay in taxes over a longer period of time and draw benefits over a shorter period of time:

- The self-employed age 65 or older represent 27.2% of all employed persons over 64. In contrast, the self-employed account for only 8.9% of all employed persons of any age. Thus, the self-employed, as an actuarial group, postpone benefits far longer than employee workers and pay self-employed taxes longer than employee workers.[1/]
- A rather recent study shows that by age 63, 21.2% of employed workers have left the work force while only 11.6% of self-employed workers had retired.[2/]

[1/] U.S. Bureau of Labor Statistics, Employment and Earnings.

[2/] Joseph F. Quinn, "Labor Force Participation Patterns of older Self-Employed Workers," Social Security Bulletin, April 1980, Volume 43, No. 4, Pages 17-28. There are many obvious reasons for this phenomenon, since the self-employed are not affected by compulsory retirement rules and are encouraged to continue working by the ability to be flexible with one's own working hours. Nonetheless, the self-employed are disproportionately paying into the fund compared to employee workers.

- As many as 12% of self-employed workers have already qualified for Social Security through work as an employee worker before becoming self-employed. The contribution to the System made by these self-employed is, therefore, supplementary to the contributions required of them to qualify for Old Age, Survivors and Disability benefits.

2. The Commission's proposal for increasing the self-employed workers tax is unfair and discriminatory in comparison with employee workers

Presently, the self-employed Social Security tax rate is 9.35 percent compared with 6.7 percent for an employee and 13.4 percent combined for employee-employer. Of this, the self-employed tax rate for the OASDI alone (exclusive of Health Insurance (HI)) is 8.05 percent compared to 5.40 percent for the employee workers, and 10.80 percent combined for the employee-employer. The Social Security Commission has recommended that the self-employed Social Security tax rate be increased to the combined employee-employer OASDI payroll tax rate which is to be 11.4 percent in 1984. The self-employed HI payroll tax rate would remain 1.3 percent for 1984. The self-employed, according to the Social Security Commission's recommendations, would have their Social Security taxes increased from 8.05 percent to 11.40 percent, a $603 increase, or 41.6 percent tax increase for a typical self-employed worker (see Table 5).

In conjunction with this self-employed Social Security tax increase, the Commission would allow the self-employed a personal income tax deduction equal to one-half the OASDI Social Security tax payment. Apparently this idea was adopted by the Commission in the belief that the huge Social Security tax increase would be offset from personal income tax, resulting in little net increased out-of-pocket loss to the self-employed worker. An analysis of this proposal, including the income tax deduction, indicates, however, that there would be little offsetting effect for the vast majority of the self-employed and the increase in tax burden on self-employed workers would be far greater than the new tax burden on employee workers, a $439 increase, or 30.3% increase for a typical self-employed worker, after adjusting for a personal income tax deduction.

Beginning in 1984 the Commission's proposal would increase the after-tax burden on the self-employed person by the largest increase in U.S. history. In sharp contrast, an employee earning the same income would experience no increase in after-tax burden in 1984, 1985, 1986 and 1987. Only in 1988 would the employee worker experience a modest increase and only by bringing the established increase for 1990 forward to 1988 and 1989. In 1990 and afterwards the employee worker would experience no increase in after-tax burden. Under the Commission's proposal, the 0.3 percentage point increase in 1984 would be totally offset by a refundable tax credit. For 1985, the increase was previously scheduled by the tax law passed in 1977. Thus, the tax burden increase proposed on employee workers is zero except for 2 years, 1988 and 1989, and then only a modest increase is proposed (see Tables 1 and 2).

TABLE 1

THE CHANGE PROPOSED BY THE COMMISSION ON OASDI TAX ON EMPLOYEE WORKERS IN 1984 1/

	Current Law	Proposed		
	Effective Tax Rate	Effective Tax Rate 2/	Increase in Tax Burden	
			Dollars	Percent
$ 5,000	5.40%	5.40%	0	0.0
$ 10,000	5.40%	5.40%	0	0.0
$ 14,000	5.40%	5.40%	0	0.0
$ 18,000	5.40%	5.40%	0	0.0
$ 22,000	5.40%	5.40%	0	0.0
$ 34,000	5.40%	5.40%	0	0.0
$ 40,000	5.06%	5.06%	0	0.0
$ 54,000	3.75%	3.75%	0	0.0
$ 70,000	2.89%	2.89%	0	0.0
$ 90,000	2.25%	2.25%	0	0.0
$120,000	1.69%	1.69%	0	0.0
$170,000	1.19%	1.19%	0	0.0

1/ Maximum taxable earnings of $37,500
2/ Reflects refundable tax credit proposed for employee workers

TABLE 2

THE CHANGE PROPOSED BY THE COMMISSION ON OASDI TAX ON EMPLOYEE WORKERS IN 1985 1/

	Current Law	Proposed		
	Effective Tax Rate	Effective Tax Rate	Increase in Tax Burden	
			Dollars	Percent
$ 5,000	5.70%	5.70%	0	0.0
$ 10,000	5.70%	5.70%	0	0.0
$ 14,000	5.70%	5.70%	0	0.0
$ 18,000	5.70%	5.70%	0	0.0
$ 22,000	5.70%	5.70%	0	0.0
$ 34,000	5.70%	5.70%	0	0.0
$ 40,000	5.70%	5.70%	0	0.0
$ 54,000	4.28%	4.28%	0	0.0
$ 70,000	3.30%	3.30%	0	0.0
$ 90,000	2.57%	2.57%	0	0.0
$120,000	1.92%	1.92%	0	0.0
$170,000	1.36%	1.36%	0	0.0

1/ Maximum taxable earnings of $40,500

In sharp and unfair contrast, the tax burden would increase for the self-employed workers at all income levels (see Tables 3 and 4).

TABLE 3

THE CHANGE PROPOSED BY THE COMMISSION
ON OASDI TAX ON SELF-EMPLOYED WORKERS IN 1984 1/.

	Current Law	Proposed		
	Effective Tax Rate	Effective Tax Rate 2/	Increase in Tax Burden	
			Dollars	Percent
$ 5,000	8.05%	11.40%	168	41.6%
$ 10,000	8.05%	10.72%	267	33.2%
$ 14,000	8.05%	10.60%	357	31.7%
$ 18,000	8.05%	10.48%	439	30.2%
$ 22,000	8.05%	10.37%	510	28.8%
$ 34,000	8.05%	9.80%	595	21.7%
$ 40,000	7.55%	8.92%	549	18.1%
$ 54,000	5.59%	6.41%	442	14.7%
$ 70,000	4.31%	4.82%	355	11.8%
$ 90,000	3.35%	3.68%	293	9.9%
$120,000	2.52%	2.69%	209	6.7%
$170,000	1.78%	1.89%	194	6.2%

1/ Maximum taxable earnings of $37,500

2/ The increase in the tax burden is calculated by adjusting for the 50 percent deductibility of OASDI tax taken from personal income taxes, based on the effective personal and income tax rate for each income level.

TABLE 4

THE CHANGE PROPOSED BY THE COMMISSION
ON OASDI TAX ON SELF-EMPLOYED WORKERS IN 1985 1/

	Current Law	Proposed		
	Effective Tax Rate	Effective Tax Rate 2/	Increase in Tax Burden	
			Dollars	Percent
$ 5,000	8.55%	11.40%	143	33.3%
$ 10,000	8.55%	10.72%	217	25.4%
$ 14,000	8.55%	10.60%	287	24.0%
$ 18,000	8.55%	10.48%	347	22.6%
$ 22,000	8.55%	10.37%	400	21.3%
$ 34,000	8.55%	9.80%	425	14.6%
$ 40,000	8.55%	9.52%	388	11.3%
$ 54,000	6.41%	6.93%	279	8.1%
$ 70,000	4.95%	5.21%	184	5.3%
$ 90,000	3.85%	3.98%	119	3.4%
$120,000	2.86%	2.91%	29	1.7%
$170,000	2.04%	2.04%	0	0.0%

1/ Maximum taxable earnings of $40,500

2/ The increase in the tax burden is calculated by adjusting for the 50 percent deductibility of OASDI tax taken from personal income taxes, based on the effective personal and income tax rate for each income level.

The impact of the Commission's proposal on a typical self-employed worker would be a $439 increase (or 30%) in tax burden in 1984. The increase would be 23 percent in 1985 (see Tables 5 and 6).

TABLE 5

COMMISSION'S PROPOSED OASDI TAX BURDEN ON A TYPICAL SELF-EMPLOYED WORKER AND EMPLOYEE WORKER WITH THE SAME INCOME IN 1984 1/

	Current Law				Commission's Proposal				Increase			
	Before-Tax		After-Tax 2/		Before-Tax		After-Tax 2/		Before-Tax		After-Tax2/	
	Rate	$	Rate	$	Rate	$	Rate	$	%	$	%	$
Self-Employed	8.05%	$1,449	8.05%	$1,449	11.40%	$2,052	10.49%	$1,888	41.6%	$603	30.3%	$439
Employee	5.40%	$ 972	5.40%	$ 972	5.70%	$1,026	5.40%	$ 972	5.6%	$ 54	0.0%	0
Employer	5.40%	$ 972	3.62%	$ 651	5.70%	$1,026	3.82%	$ 687	5.6%	$ 54	5.5%	$ 36

TABLE 6

COMMISSION'S PROPOSED OASDI TAX BURDEN ON A TYPICAL SELF-EMPLOYED WORKER AND EMPLOYEE WORKER WITH THE SAME INCOME IN 1985, 1986, AND 1987 1/

	Current Law				Commission's Proposal				Increase			
	Before-Tax		After-Tax 2/		Before-Tax		After-Tax 2/		Before-Tax		After-Tax2/	
	Rate	$	Rate	$	Rate	$	Rate	$	%	$	%	$
Self-Employed	8.55%	$1,539	8.55%	$1,539	11.40%	$2,052	10.49%	$1,888	33.3%	$513	22.7%	$349
Employee	5.70%	$1,026	5.70%	$1,026	5.70%	$1,026	5.70%	$1,026	0.0%	0	0.0%	0
Employer	5.70%	$1,026	3.82%	$ 687	5.70%	$1,026	3.82%	$ 687	0.0%	0	0.0%	0

1/ Typical self-employed person has an income of $18,000.
The average income for REALTOR® sales persons is $18,000.

2/ After-tax adjustment for deduction for self-employed and employer and credit for employees in 1984. For employer, assumes average effective corporate income tax for 1982 of 33%.

The tax burden on the self-employed would continue in every future year beyond 1988. During the next 10 years the unfair tax burden would be approximately $3,600 for a typical self-employed worker above what would be paid by the employee worker. Thus, the tax burden would increase about 25% higher for the average self-employed worker than the increase in tax burden for the employee worker.

If a change in the tax structure is necessary, a 25 percent tax credit would reduce most of the harm of this proposed tax increase even with 50 percent deductibility. The loss of personal income tax receipts would average only about $0.9 billion each year. We will be pleased to examine other alternatives to our proposed technical improvement (see Tables 7 and 8).

TABLE 7

COMMISSION'S PROPOSED SELF-EMPLOYED SOCIAL SECURITY TAX INCREASE
(Billions of Dollars)

	1984	1985	1986	1987	1988	1989	Total 84-89
Commission's proposed tax Increase in Revenues to Social Security Trust Fund[1]	$0.9	$2.8	$3.1	$3.4	$3.6	$3.8	$17.6
Commission Proposed 50 Percent Tax Deduction from personal taxable income thus reducing general revenues[1]	- 0.61[2]	1.91	2.12	2.32	2.45	2.59	12.0
Alternative 25% Tax Credit Proposals--further reduction in General Revenues	- 0.26[2]	0.79	0.87	0.96	1.01	1.07	4.96
Net tax burden on Self-Employed	0.03	0.10	0.11	0.12	0.14	0.14	0.64

[1] Source: National Commission on Social Security Reform, Actuarial Cost Estimates for OASDI and HI and for Various Possible Changes in OASDI. Other estimates range from $9 billion to $12 billion.

[2] By contrast, Commission's proposal for refundable tax credit for employee workers in 1984 is estimated to cost $9.4 billion.

TABLE 8

COMMISSIONS PROPOSED SOCIAL SECURITY TAX INCREASE
FOR A TYPICAL SELF EMPLOYED WORKER WTIH
INCOME OF $18,000

	1984	1985	1986	1987	1988	1989	84-89
Tax Under Current Law	$1449	$1539	$1539	$1539	$1539	$1539	--
Commissions's after tax increase	439	349	349	349	468	468	$2422
Alternative after tax increase (25% tax credit in placing 50% deductibility)	90	0	0	0	98	98	286

3. The Commission's proposed self-employed worker tax increase would be regressive and greatly increase the tax burden on lower income self-employed workers in contrast to upper income self-employed workers

This is clear by reviewing Tables 3 and 4. The tax burden for lower income self-employed workers would increase by 20 to 40 percent while the increase in tax burden for upper income self-employed would only go as high as 10 percent.

The Commission's proposal of the deductibility of one-half the OASDI tax is of limited value except for the very few self-employed persons with very high incomes and subject to the 50 percent personal income tax rate. These few rich self-employed people would be treated fairly while 99 percent of the self-employed workers with lower incomes would experience an increase in tax burden.

The Commission may have seen a "tax deduction" as an offset that would result in little net increase in tax payments by the self-employed workers as indicated by Commission staff working papers (See Commission Memorandum 56). For example, the following footnote from the Commission's options paper:

> In conjunction with this proposal, a tax credit for the self-employed equal to 25% of the self-employment tax could be provided. Alternatively, 50% of the payroll tax paid by the self-employed could be made tax deductible as a business expense. (Emphasis supplied.)

Clearly, the tax deduction does not provide a fair offset. It approaches full offset only for those self-employed taxpayers in the highest of tax brackets.

Even the tax credit, if not made refundable, would not remove the burden that this self-employed tax increase would place on the lowest income self-employed workers that have little or no income tax liability.

When considering proposed benefit changes, the Commission proposes that the tax burden should fall on those most able to afford it -- Social Security recipients whose other income exceeds $20,000 -- who would pay personal income taxes for the first time on their Social Security benefit payments. The Commission in sharp contrast recommends perhaps the greatest share of the tax change in the case of self-employed workers, on those least able to bear it. In fact, the tax increase on the self-employed workers is the largest tax increase in U.S. history.

This significant difference in tax treatment suggests that the results of the Commission's proposal affecting self-employed workers may not have been intended or understood.

4. The Commission's proposed tax increase would be unfair to self-employed workers in every State of the Union

In the State of Texas, for example, 483,982 self-employed workers would pay $731.3 million increase in after-tax personal income tax burden from 1984 to 1989, that is, if the self-employed workers in Texas are not driven to abandon their choice of being self-employed because of this heavy tax burden (see Table 7).

TABLE 9

INCREASE IN AFTER-TAX BURDEN ON SELF-EMPLOYED WORKERS IN EACH STATE: 1984-1989

	Number	Excessive Tax 1/		Number	Excessive Tax 1/
Alabama	101,432	$ 153,273,795	Nebraska	92,388	$ 139,607,416
Alaska	12,362	18,680,206	Nevada	22,040	33,304,622
Arizona	64,653	97,697,085	New Hampshire	29,396	44,420,267
Arkansas	85,735	129,554,074	New Jersey	158,628	239,702,614
California	803,909	1,214,786,097	New Mexico	37,620	56,847,545
Colorado	110,688	167,260,528	New York	402,160	607,703,580
Connecticut	74,555	112,659,987	North Carolina	181,783	274,692,112
Delaware	12,796	19,336,023	North Dakota	46,264	69,909,485
D. C.	11,104	16,779,243	Ohio	246,735	372,841,015
Florida	275,690	416,594,887	Oklahoma	126,537	191,209,936
Georgia	147,001	222,133,066	Oregon	102,921	155,523,822
Hawaii	23,388	35,341,584	Pennsylvania	292,178	441,509,888
Idaho	45,661	68,998,292	Rhode Island	19,495	29,458,875
Illinois	292,254	441,624,731	South Carolina	77,779	117,531,770
Indiana	138,277	208,950,238	South Dakota	51,184	77,344,092
Iowa	150,356	227,202,803	Tennessee	136,611	206,432,747
Kansas	108,905	164,566,238	Texas	483,982	731,344,723
Kentucky	106,567	161,033,289	Utah	39,774	60,102,452
Louisiana	104,617	158,086,646	Vermont	21,688	32,772,715
Maine	38,133	57,622,739	Virginia	124,498	188,128,805
Maryland	91,061	137,602,187	Washington	130,466	197,147,044
Massachusetts	127,346	192,432,415	West Virginia	36,922	55,792,798
Michigan	187,536	283,385,465	Wisconsin	147,862	223,434,122
Minnesota	183,037	276,587,030	Wyoming	16,962	25,631,261
Mississippi	74,040	111,881,771			
Missouri	182,079	275,139,397			
Montana	38,645	58,396,421	TOTAL U.S.	6,617,700 2/	10,000,000,000

1/ Based on a net tax increase of $10 billion over 1984-89.

2/ This figure, based on the 1980 Census, is 1.861 million less than the number of self-employed workers reported by the Bureau of Labor Statistics which is based on the Current Population Survey (CPS). The cause of this discrepancy is believed to be due to a more expansive definition of self-employed by the CPS.

Source: U.S. Department of Commerce, Bureau of the Census, 1980 Census of Population and Housing, Provisional Estimates of Social, Economic, and Housing Characteristics, PHC80-S1-1.

5. The Commission's proposal would hurt the smallest of small business

Self-employed workers are already disadvantaged by the fact:

(1) They do not have the financial protection from unemployment which is provided to employed workers through unemployment compensation programs which are, in part, now subsidized by loans from the Federal government.

(2) They do not have the protection from liability which the corporate form provides for most employed workers through corporations' limited liability.

(3) They are not able to treat as a business expense the cost of insurance premiums for health insurance. This contrasts with the ability of employers to expense this common item of cost of employee workers.

(4) Theyare not able to treat as a business expense all of the costs of providing pensions.

In addition, deductions of the cost of employed workers, most of whom work for corporations, are of much greater value than are deductions for self-employed workers. The average effective income tax rate (Federal, State and local) on corporations is about 33 percent compared to an average 18 percent or less for self-employed workers. Thus, the Commission's proposal to allow a 50 percent deduction of the OASDI tax for both employee and employer, and to allow a 50 percent deduction for OASDI for the self-employed, does not have the same value. It is much less valuable to the self-employed.

6. The Commission's proposal for heavily taxing the self-employed workers would likely increase business concentration

Small, self-employed business and professionals would find the tax burden too great and merge with larger businesses, reducing competition which benefits the American consumer.

7. The Commission's huge tax increase on self-employment would discourage the dream of many Americans to be self-employed

Many of us want to be our own boss, to work according to our own schedules, to innovate in our own way, to reap rewards of our own efforts and to call no one else our supervisor.

The huge tax increase proposed by the Commission would penalize more than 6 million Americans who choose to be their own boss and make it difficult if not impossible to achieve their dream of working as a self-employed person.

The American dream must be kept alive. It must not be undermined by unfair and unwise tax increases. The American dream of self-employment should remain viable in the future as it has in the past.

8. The Commission's proposal would reduce innovation and energy in the work place

Some of the nation's greatest inventions came from inventors who were self-employed. Every family has benefited from the automatic development and printing of photographs, as was pioneered by inventor Land. Some of our best designed buildings were done by architects who were self-employed. New products have been introduced and provided for consumers across the entire economy by direct sales people. Some of the best art and music has come from self-employed people. We find among the self-employed:
inventors, architects, doctors, nurses, builders, beauticians, taxicab drivers, truck drivers, musicians, direct sales people,

farmers, and others. They are all providing an incentive for extra work, extra pride and extra accomplishment from which all Americans have benefited.

The proposed tax increase would dampen incentive for unique and important contributions to our society. Particularly at this time of a fragile economic recovery we should not discourage self-employment which leads to important innovations, risk-taking and extra energy from people who choose to be their own boss.

Already we have discouraged self-employment by the existing heavy payroll tax burden on the self-employed who under existing law pay 150 percent of the tax burden on employee workers and who would be required under the Commission proposal to pay 200 percent. Since the 150 percent tax burden was imposed 30 years ago, the proportion of the work force who are self-employed has dropped from 14 to 8 percent. The existing tax burden was a reason for that drop and a further increase in that tax burden could cause the drop to be even greater and at a greater loss for all American households who count on the service and products of the self-employed (see Table 10).

TABLE 10

SELF-EMPLOYED WORKERS

Year	Number* (millions)	Percent of Civilian Labor Force
1950	8.624	13.9%
1965	8.520	11.4%
1980	8.478	8.1%

*Represent total self-employed: only about 6 1/2 million are covered by Social Security.

Source: U.S. Department of Commerce, Bureau of the Census.

Even the most cautious observer can realize from these statistics that the condition of self-employed workers is already fragile because there has been no expansion in their numbers and in fact the proportion of Americans who are self-employed has declined.

9. The Commission proposal would reduce the incentive for self-employed workers to continue with a full and productive life

There tends to be a larger proportion of self-employed workers that are working after age 65 than in the case of employed workers. Obviously, when they work longer of their own choice, they tend to start drawing retirement benefit payments at a later age. Self-employment increases the opportunities for older workers to remain active. This tax increase is anti older people.

10. The Commission's proposal would be unfair to women

Women, who are already discriminated against by the structure of the Social Security System, will have the disparity of their payments to benefits increased under the new self-employed proposal.

It is recognized that Social Security under the current system is discriminatory to any woman who works to supplement the family income since her benefits would have been provided by her husband's contribution even if she did not contribute on her own. Since self-employed women are, even now, contributing more than women employees, there can be no truth to the assertion that they are getting more benefits than they are paying for.

It is a bitter irony that the Commission's recommendations purport to help women through provisions which allow even divorced wives and remarried widows to receive benefits, while at the same time the Commission's proposal for self-employed workers further taxes the women who will need coverage less.

This is especially important since the number of women self-employed workers has more than doubled in the last few years while the total number of self-employed has decreased slightly in the last 30 years. It is important to the NATIONAL ASSOCIATION OF REALTORS® since nearly 300,000 of our members are self-employed women.

Women carry an important responsibility in our society by bearing the next generation of Americans. In many cases, they also carry the responsibility of rearing the next generation. Self-employment is particularly helpful to women so that they can exit and enter the work place and so they can have gainful work that will match their unique schedule requirements.

Self-employed women have grown in the last 30 years from 11 percent of self-employed workers to 26 percent in 1980 and estimated to be 30 percent in 1984. The trend should continue in the future and we can expect women to be a larger percentage of the self-employed than men in the long run.

It is particularly important -- in fairness to women and in order to take care of their unique needs for flexibility in their careers -- not to enact a huge and unfair and regressive tax on self-employed women (see Table 11).

TABLE 11
UNFAIR TAX BURDEN ON SELF-EMPLOYED WOMEN

Years	Millions of Women	Percent of Self-employed	Additional Annual Tax Burden
1950	1.0	11	N/A
1965	1.6	18	N/A
1980	2.2	26	N/A
1984 1/	2.5	30	$450 million
1995 1/	3.4	40	$600 million
2010 1/	4.7	55	$800 million

1/ In constant $1982.

CONCLUSION

If Congress feels that the traditional tax structure of self-employed workers must be changed, the only tax that can be fair is to change the 50 percent deductibility provision to a 25 percent tax credit in each and every future year.

The CHAIRMAN. I just wondered if I could ask each panelist whether or not they support the long-term solution which would increase the retirement age to age 66 and index it to longevity beginning in 2012?

Dr. CARLSON. Yes.

Ms. RICE. Senator, we don't have policy on it, but I think it is something we would be certainly willing to look at.

Mr. ALDEN. And the U.S. Chamber does support that change.

Mr. DENNIS. If you included a fail-safe or something like a work promotion program, we would be most interested.

The CHAIRMAN. In our deliberations on the Commission, we considered about a tax credit for the self-employed. As I understand it, the NFIB prefers a deduction. You have got a different view. But the self-employed receive benefits on the basis of trust fund contributions that are about 25 percent lower than their employee-employer counterpart, so they pay for only about 75 percent of their benefits. The question is really whether the self-employed person should pay the increase or whether the Treasury should pay it. I think that's the reason the Commission recommended that change to the Congress.

Dr. CARLSON. We were disappointed as you must have been disappointed on the Commission that the Social Security Administration did not know who was paying their fair share into the system. But if you look at second best information, you find out the self-employed tend to contribute more because of double taxation of an employee status, and then a self-employed status. They tend to pay longer. In fact, we have some statistics from the Labor Department. The self-employed, aged 65 or older, represents 27 percent of all employed persons. And in the case of their proportion in the total population under 64, they are only 9 percent. So disproportionately, they are working longer; receiving lower benefits because of the penalty; thereby drawing less out of the trust fund. The best you can do with second best information—it looks like they are paying their way right now without any proposed change.

The CHAIRMAN. I understand that if each of us could have had our own package, it would have been closer to something that we preferred. However, this was a compromise, as Senator Moynihan certainly knows. I doubt that any of the members of the Commission, if they were king for a day, would come up with the package that the Commission came up with. It was a compromise and although I believe that I have detected some mild opposition to some of it, I don't detect any strong opposition. We are still waiting for the NFIB plan. Do you have a substitute for the Commission plan?

Mr. DENNIS. We have. Are you referring to the 1983–89 or for the longer term?

The CHAIRMAN. First, how would you raise $170 billion in the short range?

Mr. DENNIS. Our discussions have broken down.

The CHAIRMAN. Ours almost broke down too. We think that if your organization would support the consensus package, it would be very helpful. There are a lot of good members in your organization. But it doesn't help us much if you are against the compromise unless you have got a better idea.

I assume you are opposed to general funding. Is that correct?

Mr. Dennis. No, that's not true. We wouldn't be opposed to general funding. We think ultimately that we must divide the annuity and transfer functions of this program, and pay for the transfer functions of the program through general revenue.

The Chairman. You would upset the traditional employee-employer parity in treatment under social security? That doesn't seem to me to be a business position.

Mr. Dennis. No, sir. I apparently wasn't clear. The benefit structure of social security in itself has social subsidy elements, and pure annuity elements. We think ultimately that the pure annuity elements must be paid for by payroll taxes, employer-employee payroll taxes and that the social subsidy element must be paid for by the general revenues of the Treasury. We don't think that the payroll tax, the 50-50 dividing division, should be changed.

The Chairman. We have been hoping that groups like AARP and NFIB and others that don't like the package would come up with some other alternative. We have heard AARP's. They want to raise $223 billion in general taxes, which I don't think would have much support around here. But we don't yet know what the NFIB might support—do you have any idea what you might have in mind?

Mr. Dennis. Yes, sir, we do have some ideas, but until we discuss them further with some other folks I just don't feel that I can say anything. And, therefore, we are in the position of having to say "no," we don't have anything right now.

The Chairman. Senator Moynihan.

Senator Moynihan. Mr. Chairman, I would just like to thank each of the members of the panel that have come to us with some numbers and other ideas. I would like to say to Dr. Carlson—Jack, if you would not mind my familiarity—that it has been impressive and distressing how little information we have about this system. It's not hard to get. But some of the questions that were asked, nobody knows. The system has not been asking itself about itself.

Dr. Carlson. I agree.

Senator Moynihan. And as a longer term measure, I hope we can encourage them to do so. Just a simple sampling, inquiring, you know, about who is out there.

But I wanted to ask Mr. Alden two things. One is that I didn't quite hear you on the proportion of Federal employees who do not remain in the system long enough to have vested retirement rights. And I couldn't find it in your text.

Mr. Alden. Well, let me simply restate it for you. Presently, an employee in the civil service retirement system, as I recall its provisions, must be employed for 5 years.

Senator Moynihan. That's right.

Mr. Alden. If he or she leaves before then, whatever rights were there are forfeited and contributions are refunded. That is not true of social security. And so to the extent social security were to replace in part the civil service retirement plan, that individual would have albeit no return of contributions, but a fully portable, fully vested right that he can carry on into private employment or elsewhere in other Government service.

Senator Moynihan. Well, did I hear you have some estimate of what the portion of persons——

Mr. ALDEN. Yes. Approximately one-half.

Senator MOYNIHAN. Mr. Chairman, did you hear that? Approximately one-half of persons who enter Federal employment do not remain long enough to be vested with retirement benefits. When you leave, I believe you would just get back your own contributions, but if you were in social security they would take that full 5, 4 years or whatever and move onto the next job. I think that's a striking number. Half the people who enter Federal employment do not get vested.

And, second, I was struck—like I say, you have all made excellent points—by the notion of the noncovered work force, 80 percent somehow manage to get themselves covered and benefit from the fact that they typically appear as low income workers even though they need not have been at all. They get the benefit as if they were in the low income range in the system.

And I think your number there is the same question. I think you say that on average they pay less than one-third of what career long covered employees pay into the program, and they get about two-thirds of the amount that they would get if they had been career long.

Mr. ALDEN. That's why it is extremely important that those people be brought into the system as soon as possible and in the greatest numbers. It is of benefit to the system as well as to them.

Senator MOYNIHAN. I thank you all very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Chafee.

Senator CHAFEE. Thank you, Mr. Chairman.

I also noted the point you made, Mr. Alden. It is astonishing. In other words, what they are doing is that group is getting, if you would—if they are getting two-third the benefits and paying one-third the payment, they are getting a one-third bonus, if you would, that they haven't paid for.

Mr. ALDEN. That's essentially correct.

Senator CHAFEE. I agree with what Ms. Rice said on the bottom of page 4 of her testimony where she indicates that the national security shortfall could be more severe than originally forecasted. I share your pessimism on that score, Ms. Rice.

The point that you make, Mr. Carlson, about the dream of self-employment for many Americans should be encouraged; not discouraged. I certainly think that in a way we are discouraging it. We didn't allow the deductibility of health insurance premiums. We don't permit that anymore as a result of the change we made.

Dr. CARLSON. No, sir. Self-employed do not have the deductibility like corporations do.

Senator CHAFEE. And under this program it would make their taxes equal to the total of employer and employee for the self-employed. And they would get a deduction for what? Half of it?

Dr. CARLSON. That's the Commission's proposal. Fifty percent.

Senator CHAFEE. Which, obviously, isn't 100 percent because no matter what basis they are in, a deduction is nothing like a credit. Then when they came for the taxability of it, and they were over a certain bracket, over the $25,000 or the $20,000, 50 percent would be taxable to them.

Dr. CARLSON. Depending upon their effective tax rate at that time.

Senator CHAFEE. So it seems to me they lose out here quite severely.

Dr. CARLSON. And especially when you start off that the available evidence seems to indicate that they are already paying their way. And the fact that no one is taking advantage of this. Their proportion of the work force has gone from 14 percent to 8 percent so it hasn't been an out for them. It seems like they are playing a legitimate role and are carrying a legitimate burden and shouldn't have this additional tax.

Senator CHAFEE. Well, these are all difficult problems. And I appreciate the contribution each of you have made. You have been good witnesses. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Durenberger.

Senator DURENBERGER. Thank you, Mr. Chairman.

I have two points or two questions, I guess. And I value your testimony also, as all of us do. But it strikes me that one of the ties that bind most of you together is the cost of employing people. And this is a deep concern that I think we all have when you look beyond social security and you look at unemployment compensation and workers compensation and you go on and on and on. It is just getting very difficult in America today to consider the cost of employing people.

And for that reason perhaps I arrived too quickly, since I see you nodding, at the assumption that when the chairman of this committee introduces a piece of legislation the President would like to see passed to put a cap on the deductibility of health insurance premiums that we can expect the support of all the groups here for that legislation. Is that fairly correctly stated? So-called tax cap on health insurance premiums.

Mr. ALDEN. I'm not sure I see the parallel, Senator.

Senator DURENBERGER. For example, Chrysler pays $320 a month for health insurance that cost a lot of people, I would say, $125 or $130 a month. That adds about $195 a month to the cost of employing every person at Chrysler, just as one example. There are a lot of companies in America like that. That is part of the cost of employing people. It isn't just what we tax. It is what, in effect, the cost of employment that employers in America have negotiated for their employees. Does that explain the problem?

Mr. ALDEN. The fact that some portion of the cost of that coverage might not be deductible by the employer does not mean that it is going to go away overnight. First of all, if it were a negotiating item it would have to be negotiated down. And if the union says no, and if they are able to assert economic power in such a way as to prevent that from happening, the cost to the corporation of employment rises; it does not fall, because now some portion of what they have to spend is not deductible.

I think that the best we might hope for through that kind of cap, which is a little tangential, I think, to the issue that we are discussing today, is that those companies that currently are able to provide medical care coverage for less than the cap may be able to constrain it at that level.

Senator **Durenberger**. Let me say that it's not tangential at all. And I don't want to get my ire up, but the cost of health care in this country is the highest cost of anything that the people that are in social security have to buy. And it is going up 20 or 25 percent a year. And it isn't just our fault here in the medicare system. It's the fault of a lot of people that have provided for highly expensive excessive third-party payment for health care. So it is directly tangential to what we are talking about.

We are talking about 26 or 29 million people that qualify for medicare and social security. Do any of the others of you have an opinion on that subject?

Ms. **Rice**. Our policy, Senator Durenberger, calls for support of either a deduction or a credit for the value of employer financed health care. Or in the alternative, if that is not furnished to a self-employed person, then tax the employee for the value of that benefit.

Mr. **Dennis**. We have a relatively unusual policy making mechanism, and we have to go through that before we can offer you an opinion.

Senator **Durenberger**. All right.

Mr. **Dennis**. May I make one comment about the relative cost of employees? This will fall in with Senator Moynihan's statistics. Over half of all small businesses now pay more in payroll taxes than any other form of tax. The incentive to hire isn't very great.

Senator **Durenberger**. Jack, any opinion?

Dr. **Carlson**. Well, I agree with your overall assessment that we are going into a period where we are going to have a shortage of labor and to be increasing the tax on labor is a distortion of the direction we should be going. We should be going to encourage a lot of human capital investment and a lot of physical capital investment to offset that shortage.

I say most of our systems are working in the opposite direction.

Senator **Durenberger**. Thank you.

I have one other question maybe best directed at Mr. Alden. And that is that it relates to the fact that most of you favor the recommendation to increase the retirement age. What exists now in the private sector that in effect is a forcing mechanism in the direction of early retirement? I guess I would assume that pensions—the way a lot of pensions are put together, there is a forcing mechanism there, arrangements made regarding the continuity of fringe benefits and so forth. But isn't there to a degree in the private sector still a fairly substantial financial forcing mechanism that in effect encourages early retirement?

Mr. **Alden**. Yes. I think perhaps the term "forcing mechansim" is not the one I would choose to use.

Senator **Durenberger**. I couldn't think of a better one.

Mr. **Alden**. Well, there is an ability on the part of many older employed individuals to retire early. And it's primarily a function of two things. One, very liberal retirement plans. And, second, very liberal social security.

If either were somewhat less liberal, then I think we would find something quite contrary to what we found in the last 10 or 15 years; namely, an inclination to go early. The average retiree today goes out at about age 62.

Senator MOYNIHAN. Is that right?

Mr. ALDEN. Yes, sir. The average retiree from private pension plans goes out at age 62. Now that's voluntary, clearly. Economically, it is possible in part because social security has become so lavish. And in part because private pension plans have matured. That's the economic force at work.

Senator DURENBERGER. But I take it we are likely to see—particularly if we should be favoring a change in the retirement age—we are likely to see changes in the private sector compensation system also?

Mr. ALDEN. Absolutely. Most private plans follow very closely along the general lines laid down by social security.

Senator MOYNIHAN. Mr. Chairman, could I ask one point? Is early retirement a pattern of leisure or—we have heard that an awful lot of people have stopped——

Mr. ALDEN. Well, it is all of the above. There are many more women in the work force, and married women tend to retire when their husbands retire And women are traditionally somewhat younger than their husbands. So when husband goes at 65, wife goes at 62 or whatever the differential is. Yes, some people do go into leisure.

Others have, I think, found an opportunity for a second career. Some have gone into politics. Some have found part-time work [laughter]——

Mr. ALDEN [continuing]. Because it was economically feasible to do so. They had the fallback position of early social security and an early pension. People have wanted to go into business for themselves and have been able to do it. It's all these factors together, I think. Not as many people are burned out at 62 or 65 as used to be the case. Our oldtimers are pretty healthy.

The CHAIRMAN. Well, I want to thank the witnesses. I think I detect general support for the compromise. Maybe that is general.

Mr. ALDEN. General.

The CHAIRMAN. Right.

Ms. RICE. I must say general support. We do have reservations which——

The CHAIRMAN. This is sort of like the PIK program. You don't want to pick it apart. That's a farm term.

I didn't mean to include Mr. Dennis in that support, though I think when you realize you don't have a package you may want to support this—it may be a good flag to rally around. We know some of the concerns of NFIB and we hope we have addressed some of them. We know there are portions of the package that each group supports.

Again, I would say, not in defense of the Commission but in support of the Commission's efforts, that you face the same dilemma we did. We live in the real world here—there are people in one group who want to go one way, and a majority in another group that want to go a different way. We finally determined after hour, after hour, after hour that we could put together a package that would not do violence to any one group and to which everyone would make a contribution. It seems to me that the compromise is going to weather this storm in pretty good shape. Maybe it's not perfect. It's not the Moynihan package or the Dole package or the Durenberger package, but it's a package.

You do all support with certain exceptions the retirement age extension? Is that right?

Mr. ALDEN. Yes.

The CHAIRMAN. As I've said before, Claude Pepper is the best reason I know to extend the retirement age. It seems to me that at age 83 and making daily contributions—he is certainly the best argument I can think of for extending the retirement age.

But who are these people at age 60 going into politics? [Laughter.]

Mr. ALDEN. Present company excepted.

The CHAIRMAN. Well, I thought maybe you knew somebody in our States that might be gearing up [Laughter]——

Thank you very much. We will recess until 1:30, at which time we will hear a panel consisting of Mr. Slaybaugh and Mr. Strickland. Mr. Myers, was scheduled to testify. However, I think it would be more helpful to us to hear him after he has had a chance to digest all of the testimony. Therefore, we will postpone his testimony as sort of a wrap-up.

[Whereupon, at 12:31 p.m., the hearing was recessed.]

AFTERNOON SESSION

The CHAIRMAN. Mr. Slaybaugh, and Mr. Strickland.

I might say at the outset that your entire statements will be made a part of the record. We are pleased to have you before the committee. This is our second day of hearings on social security. We hope to hear 40 or 50 witnesses in the next couple of days, and then go into what we call markup of the legislation in order to pass some kind of bill before March 26.

STATEMENT OF MR. GERALD P. SLAYBAUGH, CHIEF OF SOCIAL SECURITY, KANSAS DEPARTMENT OF ADMINISTRATION, AND LEGISLATIVE CHAIRMAN, NATIONAL CONFERENCE OF STATE SOCIAL SECURITY ADMINISTRATORS, TOPEKA, KANS.

Mr. SLAYBAUGH. Thank you, Senator Dole.

My name is Gerald Slaybaugh. I'm the chairman of the Legislative Committee of the National Conference of State Social Security Administrators. With me today is the president of that group, Mr. Carlos Gallegos, from New Mexico; and the vice chairman of the Legislative Committee, Mrs. Bellwood of Kentucky.

We are here today, and I am appearing before you solely in the capacity as the legislative chairman of the National Conference of State Social Security Administrators.

The National Conference supports in principle all of the recommendations of the National Commission of Social Security Reform. We appreciate all the work you, Senator, and the rest of the Commission members have done.

We do have one problem, as you might guess, and that would be with State and local terminations. We believe that if you would adopt resolution No. 5 or recommendation No. 5 that would not permit State and local governments from terminating, we would find ourselves in a constitutional fight or problem, as most of the Commission members have suggested.

In order to avoid that, we have come up with three recommendations. First, that we would recommend that a law could be passed to permit each State to modify its agreement to remove the termination clause from the original agreement. Now I must confess that I think very few States would do that.

The second recommendation would be to deem all State and local employees presently covered by social security to be self-employed. And I think there is precedence for doing this. I believe the Congress did this when they passed a law to allow the clergy to be covered.

Then, third, deem only those State and local employees who actually opt out of social security to be self-employed, but require the tax to be the same as if they remained in covered employment.

Now this, I think, probably would be the single best approach and certainly the most controversial of the three. We recognize that there isn't any replacement plan, at least that I have seen—and I have seen a great number of them—of entities that have terminated that can come anywhere close to duplicating the coverage that social security provides. And we believe that the employees should have a right to determine whether or not they are covered or are not covered.

Presently, they have no such right. Only if they belong to a retirement system when they come into social security do they have the right to decide if they want coverage. If the employer deems them to get out, they can do so without even notifying the employee. We certainly don't believe that that should be done.

If, in your markup sessions, you find that State and local is a problem, the least we would like to have recognized is that we would like to have a bill passed that would demand—require, I should say—a referendum vote of all groups getting ready to terminate in State and locals so that the employees can become fully cognizant of what their employer is doing. We don't believe this is the case as it is now. So in summary let me again state the National Conference of State Social Security Administrators opposes taking away the right to terminate the coverage, while at the same time we urge you to preserve the coverage presently being afforded State and local government employees. We believe we have given you three good recommendations as can be accomplished.

Thank you very much.

The CHAIRMAN. Thank you, Mr. Slaybaugh. If you will just wait for a moment, we will hear from Mr. Strickland and then we will have questions.

[The prepared statement of Mr. Slaybaugh follows:]

STATEMENT OF GERALD SLAYBAUGH, CHAIRMAN, LEGISLATIVE COMMITTEE OF THE NATIONAL CONFERENCE OF STATE SOCIAL SECURITY ADMINISTRATORS

My name is Gerald Slaybaugh, I am the Chairman of the Legislative Committee of the National Conference of State Social Security Administrators (NCSSSA). Presently I also serve as Chief of Social Security for the State of Kansas. I sincerely appreciate the privilege and opportunity to testify before you today.

This statement is presented solely in my capacity as Chairman of the Legislative Committee of NCSSSA. The NCSSSA is an organization representing all public employers covered under Section 218 of the Social Security Act through its member state administrators responsible for administering that section of the Social Security Act.

While the testimony I am presenting will deal primarily with only one of the recommendations of The National Commission on Social Security Reform we would like to go on record as favoring in principal all of the recommendations that were published by that distinguished group. We all recognize the need for the changes and feel we all must support those changes to keep the funds solvent for present and future retirees.

The National Commission on Social Security Reform recommendation that I would like to address is labeled No. 5 and is stated as follows:

> "The National Commission recommends that State and local governments which have elected coverage for their employees under the OASDI-HI program should not be permitted to terminate such coverage in the future -- specifically, termination notices now pending would be invalid if the process of termination is not completed by the enactment date of the new legislation.

The NCSSSA believes as do a majority of the members of the National Commission (see page 2-27 of the Commission Report) that to prohibit terminations would create concern involving the constitutional problem.

Background

Coverage of State and Local Employees

Unlike the work force as a whole, social security coverage for employees of States and our political subdivisions is exercised at the option of the State or local jurisdiction on a voluntary, group basis. This is executed through agreements between the State and the Secretary of Health and Human Services.

About 70 percent of the 15 million State and local employees are covered under social security under these agreements. Most of the remaining 30 percent could be covered under social security but we have not exercised that option.

If a coverage group is composed of employees who are already covered under another retirement system, we must determine by means of a referendum vote whether those employees wish to be covered. Coverage may be elected for employees who are not under a retirement system without regard to their desires.

The record suggests that this concept of voluntary participation by employees of State and local governments was established to avoid possible constitutional issues that might arise if the Federal Government mandated coverage and, in turn, the social security tax on the States.

The law permits the termination of coverage for employees covered under an agreement provided the State gives 2 years advance notice, but such notice cannot be given until the social security coverage has been in effect for at least 5 years. The law also provides that once the social security coverage of positions in the employment of a State or local entity has been terminated, the decision is irrevocable. The same political subdivision cannot be brought back into the system again, once its withdrawal has become final.

The NCSSSA, through its member states, has worked vigorously to halt termination or at the minimum try to ascertain if the employees being terminated are aware of the loss that they will suffer once they are put out from under the umbrella of an almost universally portable system. Our organization works hand in hand with the national SSA office in dealing with the termination problem. We have appointed one of our members to act as Liaison Officer with the Office of Governmental Affairs in developing kits to be used when the question arises at a State or local level, to develop other facts and provide a point where these facts can be disseminated to all states to use in combating those who would make employees believe terminating would be "a good deal."

Statistics on Terminations

Since 1959 the Social Security Administration (SSA) has told me that 967 employers covering 242,279 employees have terminated their coverage. No statistics are available on how many employers have elected coverage over the same period of time but I can assure you more employees have obtained coverage since 1959 than have in fact terminated.

Presently 287 employers with 103,889 employees plan to terminate their coverage on 12-31-83 another 347 employers with 123,395 employees plan to terminate on 12-31-84. No estimate as to the cost to the trust funds is available should all the entities terminate that have actually filed notice.

Recommendations

In order to avoid the constitutional problem several different approaches could be used to arrive at the goal of the commission. That goal is stopping terminations. We believe a passage of good law versus a law clouded with constitutional problems would certainly be preferred. We therefore submit the following recommendations:

1. Permit each state to modify its agreement to remove the termination clause from the original agreement.

   This would require the states to give up their right to terminate coverage. We do question the number of states that will be willing to modify their agreements.

2. Deem all state and local employees presently covered to be self-employed for purposes of social security.

   While there definitely has been precedence set for this, the trust funds would suffer a financial loss. The loss would occur because of the difference between the self-employed rate and the combined employer-employee rate. The employee would suffer if forced to pay a rate higher than other employees pay.

3. Deem only those state and local employees who "opt" out of social security as self-employed but require the tax to be the same as if they remained in covered employment.

   This would probably be the single best and most controversial approach. On one hand you still give the employer, i.e., state or local government the right to terminate coverage while maintaining the fiscal integrity of the trust funds by requiring the employee to pay both shares for continued coverage.

   If you accept this recommendation we urge you to also permit anyone who presently works for an employer who has terminated their coverage to individually become covered under a "grandfather" clause. Certainly some tax incentive should be given to those who are forced under this method of coverage. The credit should be available to those who actually pay both shares as opposed to those who are reimbursed for paying the employer share. Allowing for a credit on their tax return for the amount paid that is in excess of the single employee rate would be equitable. We strongly believe there are many employees who have had their coverage terminated that would like to obtain coverage on an individual basis without having to seek re-employment with another organization that has not terminated their coverage.

Care would have to be exercised to be sure this would not be detrimental to the trust funds by creating another windfall category of benefits. Perhaps the legislation could place certain modified benefit computation limits on those who rejoin the system simply to draw a benefit or to forego a spouse offset when they retire in a short period of time.

I admit that much work would have to be done on arriving at an equitable solution to re-joining the system and not creating a windfall benefit. However, I am sure the trust funds would not suffer as much as if a bad law (bad from being unconstitutional) was passed and then have it litigated for many years to come.

You could also permit anyone presently working for a non-covered entity that has never chosen to be covered to pay their tax in the same method as described above.

It is time we face the fact that most employees who have studied the benefits presently available to them under social security want to remain under the system. We urge you to make it as easy as possible for those who want to obtain coverage or to keep coverage to do so. Our association firmly believes there are too many aspects of social security that cannot be duplicated by the private sector through retirement plans, insurance or any replacement plans, and therefore terminations should be eliminated in a manner consistent with good law and fair and equitable treatment to all employees.

If you so choose to side step the general issue of termination at least consider the possibility of mandating a referendum among those employees whose employers have or may file for termination. We believe at the least this will draw to the employees attention what their employer is intending to do. We would urge you to make this effective upon passage.

Summary

In summary let me again state the National Conference of State Social Security Administrators opposes taking away the right to terminate coverage while at the same time we urge you to preserve the social security coverage presently being afforded to state and local governmental employees. We believe we have given you viable options through our recommendations that will accomplish this goal.

STATEMENT OF MR. VERNON STRICKLAND, DIRECTOR, LOUISIANA STATE EMPLOYEES RETIREMENT SYSTEM, BATON ROUGE, LA.

Mr. STRICKLAND. Mr. Chairman, and members of the committee, my name is Vernon L. Strickland. I'm director of the Louisiana State Employees Retirement System located in Baton Rouge, La.

This system, established in 1947, has never opted to be a part of social security. I am also a member of the Steering Committee of the Confederation of Non-Social Security Systems, otherwise known as CONSSS. I am a member of the Executive Committee of the National Conference on Public Employee Retirement Systems. The president of that organization, Mr. Harvey Schmidt, is also executive director of the Minnesota Teachers Retirement Association in St. Paul, Minn. Had there been time available, Mr. Schmidt, as well as Dr. David Mustoe, executive secretary of the Missouri Public School Retirement System; Mr. Bruce Hineman, executive secretary of the Texas Teacher Retirement System; Dr. Terry Lantry of Colorado, president of OPPOSE; and Mr. Joseph P. Natale, also of Colorado, president of the National Council on Teacher Retirement would have testified today.

At this time, I should like to submit a statement prepared by Mr. Harvey Schmidt for the record.

The CHAIRMAN. It will be made a part of the record.

[The prepared statement of Mr. Harvey Schmidt—not present—follows:]

Testimony of the
National Conference on Public Employee Retirement Systems
before the
Senate Finance Committee
Hearings February 22, 23, 24, 1983

Mr. Chairman, members of the Committee, my name is Harvey W. Schmidt. I appear before you today as President of the National Conference on Public Employee Retirement Systems. The National Conference is a nation-wide organization comprised of approximately 180 public retirement systems with combined memberships of approximately 4 million persons. Our representations cover about 47% of all state and municipal employees.

It is our understanding that this Committee has established these hearings to accept testimony from public witnesses covering a variety of issues concerning the Social Security System, its financing, benefit structure and coverage. Although our Conference and member organizations have interest covering all of these issues, I will address only a few issues which we hold in the highest of priorities.

I would remind this Committee that on December 16, 1981 President Reagan promulgated executive order 12335 which established the National Commission on Social Security Reform. This National Commission was created as a result of the continuing concern of the Administration and the Congress on the financial condition of the Old Age and Survivors' Trust Fund. The Commission was assigned the critical job of assessing whether the OASDI program has financial problems in the short run and over the long range future and if so, recommend how such problems could be resolved.

During the last 15 months, the Commission met 9 times on approximately a monthly basis. It has reviewed the results of many hearings, previous studies and commission reports which had preceded it but decided not to hold any public hearings. As a result, Chairman Alan Greenspan forwarded the Commission's report on January 20 to the President of the United States and to the United States Congress. I am sure the findings of the Commission and its subsequent recommendations will be deliberated at great length during these hearings by your Committee and subsequently by the entire Congress over the next several weeks.

We are encouraged to see that the Commission in its recommendations and considerations, has found it in its wisdom not to recommend the mandatory coverage of non-covered state and local employees which presently are not covered by the Social Security System. For many years on several occasions this issue has been raised as a means to, on one hand, provide short term revenue for the OASDI fund and at the same time correct what was perceived as an inequity in benefits received by those who spent a relatively small portion of their working career in covered employment, as opposed to the majority of their career being spent in non-covered Government employment.

This Conference has consistently through the years suggested that if there are inequitable benefits received by those spending relatively small portions of their working career in covered employment, those areas in the Social Security System should be addressed and re-adjusted. However, to include non-covered employees in order to reach and correct such a problem would create many additional problems in itself. First there are constitutional impediments. We believe that the involuntary inclusion of state and local governments in the Federal Social Security System violates the constitutional principles of Federalism as most recently articulated by the U. S. Supreme Court in the National League of Cities vs Usery (426 U.S. 833 1976). Some have suggested that the question of mandatory coverage might be upheld if the court were to adopt the balancing test set forth in Justice Blackman's one paragraph concurring opinion in the League of Cities case. We believe this argument would fail since the court rejected the opportunity to adopt Justice Blackman's balancing test. Even if Justice Blackman's test were adopted however, there is no overriding federal interest in mandatory universal coverage that would justify interference with the state's sovereign functions.

One of the earliest manifestations of the Court's concern with federalism is the doctrine of intergovernmental tax immunity, setting limits on the power of either State governments or the national government to tax the other or its instrumentalities. In applying this doctrine over the years, the Court has consistently required that any such federal taxation must meet two conditions to be constitutional; (1) that it not discriminate against the States, and (2) that it not interfere with the governmental functions of the State.

Therefore, any attempt by Congress to dictate to the States how they must structure their employer-employee relationships is constitutionally proscribed. Under universal mandatory Social Security coverage, State pensions, a part of the basic compensation package agreed to by the State and its employees, would become the subject of federal mandate. Like Federal minimum wage and maximum hour requirements, mandatory coverage would displace the States' authority to make the fundamental employment decisions on which their systems for performing traditional State functions rest, and would, therefore, be unconstitutional.

The Social Security System has survived since its inception without mandatory universal coverage. Any Federal interest now in including state and local employees is merely one of financial convenience. Even if a balancing test were applied, such a tenuous justification could not outweigh the constitutionally protected role of the states in their separate and independent existence.

Additionally, states and localities without social security have established separate retirement systems that were designed without taking social security into account. Benefits and employee contributions are generally high. If social security were simply added as a supplement, benefits and contributions would likely be excessive. Moreover since some states have constitutional prohibitions against reductions in retirement system benefits those benefits could not readily be reduced.

I would also remind the Committee that for the first 15 yrs. of social security public employees were excluded and not permitted to join the Social Security System even had they so desired. In order to attract employees, states and local governments found it necessary to create their own pension systems if they had not already done so. While the total exclusion was ended in 1951, when state and local retirement systems were given the option voluntarily to affiliate, many systems have not done so because of the investment both public employers and public employees have made in the continuance of their system. We believe that the bottom line for state and local government effect if mandatory coverage were adopted, would be an unreasonable increase in costs since in most cases public employers would find themselves faced with increased pension costs of 6.7% of present payrolls. This in itself could force many local governments into bankruptcy.

We hope that the Committee in its deliberations will agree with our position and rebut any attempts that may be made to extend the consideration of coverage to state and local employees now presently excluded from coverage.

I would now like to address Section 334 of the Social Security Admendments of 1977 which reduced benefits for spouses receiving government pensions, this commonly known as the social security offset. This provision was enacted in order to eliminate what was perceived as an unfair advantage for those working in non-covered employment who were entitled under the dual entitlement rules to the higher of their primary social security benefit as derived from a worker's own covered retirement history or a full spouse benefit paid to the spouse of an entitled worker. The individual in effect was allowed to receive the higher of the two. This primarily affected women in the work force since most women workers still earn less than men and generally have a more sporadic work history. Married women retirees typically receive the higher spouse benefit rather than the primary benefit which they would be entitled to as earned through their work experience. Thus, women who were married to spouses in the covered work force were able to terminate their social security coverage and see no decrease in their retirement income since their spouse benefit would be higher in any event.

The National Conference does not believe that this is an unfair advantage, however, we do believe that this is a clear discriminatory action applied to a selected work force, i.e., those employed by the Federal, state or local governments. The offset provision enacted in 1977, which was to take effect at the end of 1982 but has now been extended until July of '83, will essentially apply the dual entitlement principle to workers entitled to both a pension from work in Federal, state and local governments not covered by social security and to a social security spouse's benefit. Although this provision attempts to eliminate what is perceived as an advantage of the social security spouse benefit for workers in state and local governments, by reducing their spouse's benefit $1.00 for each $1.00 non-covered pension benefit, it sets up a discriminatory application since the same provision does not apply to non-profit employees, nor to those that are entitled to a pension from covered employment. We therefore, believe that the present offset unfairly discriminates against those in state and local government employment and attempts to apply two sets of principles for one set of benefits. We would hope that the Committee would act to repeal this section of present law.

Included in the Commission's recommendations is a proposal which would tax social security benefits to those individuals with adjusted gross incomes of $20,000 or more for an individual and $25,000 or more for a married couple. The revenue from this provision would be credited to the social security cash benefit trust fund. It is proposed that this recommendation would raise as much as $30 billion in revenue during the period 1983-89 and would reduce the long term deficit by 6/10th of a percent. However, the Conference believes that this proposal is inappropriate and as presently conceived unfair. For current retirees and those approaching retirement, this proposal represents an abrupt reduction of 11 - 25% in social security income and an unfair change in the rules of the game.

Additionally, in the future, the $20-25,000 thresholds could easily be lowere (as has already been done with unemployment compensation) thus subjecting lower and moderate income beneficiaries to the tax. Once the precedent of taxing benefits is set, the elderly will feel that no one's benefit is safe, especially if the Commission's proposals fail to meet the system's short-term financing needs. And, even if the thresholds remain the same, inflation will effectively reduce them. In fact, by 1990 using the inflation assumptions underlying the Commission's proposals, these thresholds would be reduced to $13,660 for an indivdual and $17,076 for a couple in today's dollar terms.

There are also serious technical problems with the current proposal. The most major is a notch problem affecting taxpayers whose adjusted gross incomes just slightly exceed the threshold. Taxpayers in this situation could find their tax liabilities 25 - 30% (36-58% for married couples) higher than taxpayers with incomes just below the threshold.

Correction of this notch problem by the tax-writing committees will mean that either beneficiaries with AGIs below the current threshold (possibly as low as $14-15,000) would be affected or the expected revenue of $30 billion would be substantially reduced, perhaps even cut in half.

Impact on Younger Workers: Younger workers have even more at stake under the Commission proposal because in the future, virtually all Social Security recipients (except those who are relatively poor) will have 5-25% of their social security benefits recaptured via the income tax system. This will occur because under this plan the $20-25,000 thresholds are not indexed. This is why this proposal contributes so much to ameliorating the long-term term deficit. In fact, the proposal to tax one-half of social security benefits only for persons with AGIs above $20-25,000 as the same proposal without thresholds.

Under current tax law, aged taxpayers pay no income taxes until their AGIs (excluding social security) exceed $4,300 for an individual and $7,400 for a married couple. Within 2530 years, the $4,300 "minimum" taxable threshold will meet the $20,000 threshold and the $7,400 "minimum" taxable threshold will meet the $25,000 threshold contained in the Commission's proposal. These estimates assume the short-term inflation rates underlying the Commission's package and the long-term (1990+) inflation rates contained in the II-B assumptions of the 1982 Social Security Trustees Report.

Therefore, in 25 to 30 years, the thresholds in the Commission's taxation of benefits proposal will be inoperative. The proposal will affect the future social security beneficiary population in almost the same manner that it would affect the current social security beneficiary population assuming there are no protective thresholds at all.

The last issue I would like to touch on is a proposal by the Commission which would prohibit State and local governments terminating their social security coverage. The Conference fully supports a voluntary Social Security System. We believe the major factor underlining the original extension of social security coverage to State and local employees on a voluntary basis, was a congressional desire to provide the opportunity for coverage to these employees in a way that would avoid constitutional and political barriers. The same issue which we discussed earlier surrounding the mandatory coverage question. The provision for withdrawing from the System was seen as a necessary correlation to the extension of coverage on an optional basis, but it was never an end in itself.

The fact that a growing number of employee groups will select to exercise this option to withdraw has raised this question in the past with Congress, and I am sure the National Commission's recommendations weighed that factor heavily in its considerations.

The Conference opposes any prohibiton against the present provisions for withdrawal for State and local employee groups from the system.

I would like to thank the Committee for the opportunity to express these brief views on several of the many issues which you will be deliberating on over the next coming weeks. Again, many of our member organizations will be communicating with you on their positions concerning these and many other areas affecting the Social Security System and its present financial problems.

STATEMENT OF TERRY LANTRY
ON BEHALF OF
COLORADO'S PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION
AND
ORGANIZATION FOR THE PRESERVATION OF THE PUBLIC EMPLOYEES' RETIREMENT INDUSTRY AND OPPOSITION TO SOCIAL SECURITY EXPANSION TO SUCH INDUSTRY

Submitted to the Senate Committee on Finance
February 24, 1983

Members of the Senate Committee on Finance, I am Terry Lantry. I am submitting this testimony on behalf of Colorado's Public Employees' Retirement Association (PERA), which includes 100,000 public employees plus 22,000 retired person and beneficiaries. I also am President of the Organization for the Preservation of the Public Employees' Retirement Industry and Opposition to Social Security Expansion to Such Industry (OPPOSE), which includes public employee groups in Nevada, Ohio and Massachusetts, as well as Colorado.

I submit this testimony particularly to endorse the wise recommendation of the National Commission on Social Security Reform to exclude state and local workers from mandatory Social Security coverage. The organizations I represent have opposed, and will continue to oppose vigorously, the encroachment presented by efforts to mandate Social Security coverage of state and local workers. We do so for the following reasons:

1. The effort is contrary to the 10th and 14th amendments to the Constitution of the United States and, if pursued, will be reversed by the courts, resulting in disarray in the Social Security program and the public perception of that program, which is already shaken.

   To reinforce this position, we attach to this testimony a copy of our legal counsel's opinion on the subject, which we previously provided to the Commission. As you know, the report of the National Commission recognized that there is a serious constitutional problem in this area.

2. Mandatory Social Security coverage would impose enormous tax burdens upon state and local governments. A report of the Actuarial Education and Research Fund, prepared under contract with the Universal Social Security Coverage Study Group (and summarized in that group's March 1980 report) conclusively establishes the higher cost burdens that would be transferred to state and local government. This study, performed by thirteen independent actuaries, analyzed twenty-five of the larger state systems and illustrated proposed new benefits in those systems coordinated with Social Secuirty.

One of the key findings summarized in the study (page 6 -- page 195 of the Universal Social Security Coverage Study Group's report, a copy of which is attached) was that the overall actuarial costs of the proposed coordinated plans, including Social Security taxes, generally increased by 4% to 8% of payroll in comparison to present costs. For the State of Colorado, this represents an additional tax burden of between \$80 and \$160 million per year. Almost all state budgets, including Colorado's, are hard pressed due to the current economic recession. As a matter of fact, our current legislative session is exploring tax increases of an additional \$100-\$120 million per year, probably through levy of an additional 1% state sales tax. It is obvious that any plan that both includes mandatory Social Security and maintains the present benefit level will impose additional tax burdens upon the affected states.

3. Therefore, it appears likely that, if costs are maintained at their present level, a severe cutback in benefits will be required. Given the current Social Security rate, PERA would be left with about 5% of payroll after payment of the Social Security rates (or about 25% of its previous

total income). Our actuary (who was one of the 13 previously referred to in the AERF study) has determined that this cost structure would require the following:

A) Reduction of the unit benefit percentage from 2-1/2% to 1% (or a reduction in retirement benefits of 60%).

B) Elimination of all benefits to widows and children.

C) Elimination of all disability benefits.

D) Termination of all future payments of the post-retirement COLA.

E) Substantial increases in the eligible retirement age.

It is obvious that these severe cutbacks would result in major changes in the promises made to current workers and, possibly, abrogation to rights in which they already have a legally vested interest.

4. Colorado's plan was started in 1931 -- almost five years prior to the enactment of Social Security; public employees were not only excluded from Social Security for its first 16 years, it was not possible for them to affiliate even voluntarily with Social Security until 1951.

Since 1951, the method by which over 10.2 million state and local employees have been affiliated with Social Security (report of the National Commission, Table 15) has been through voluntary affiliation and through referendum of those affected. Although much has been said about the groups which are "opting out," substantial numbers of state and local workers have been "opting in."

Basically, our opposition to mandatory Social Security is due to its devastating immediate effect upon benefits offered currently by our retirement plans. We should not be charged with the responsibility for the present financial ailments of Social Security since we have spent many years developing our own retirement systems at the state and local levels.

5. We also ask you to consider the possible devastating effect that mandatory Social Security coverage of state and local employees would have on the nation's financial markets. As of September 30, 1982, the 24 largest non-Social Security retirement plans had assets of close to $50 billion. These funds are invested primarily in corporate stocks and bonds, federal treasury notes, and real estate mortgages. We believe that the diversion of these funds to the pay-as-you-go Social Security trust funds could have a severe effect upon the American economy.

Colorado public employees have been identified as persons who want to participate in the benefits of Social Security without fully paying for those benefits. Our members do not oppose mandatory Social Security because we want to receive unfair advantages from the Social Security System. In principle, we support the National Commission's efforts to correct the windfall problem.

In the last Congress, we endorsed and supported the measure advocated by Congressman Pickle in H.R. 3207 and, in testimony before the House Subcommittee on Social Security, we recently affirmed our consistent support of that proposal. While we might have considered that measure to be the fairest of the proposals advanced to address the windfall problem, a different provision has now been adopted by the House Subcommittee on Social Security. Under this plan, the Social Security benefit of a person who also receives a pension benefit based upon non-covered employment would be reduced so as to replace his average indexed monthly earnings up to the first "bendpoint" ($255 at present) at the rate of 61% instead of at a 90% rate as provided under current law. For many of our members, this would result in a Social Security benefit reduction of $73.95 per month.

We prefer this provision to the proposed change set forth in S.1, which would replace average indexed monthly earnings up to the first bendpoint at the rate, instead, of 32%, thus resulting in a reduction of $147.90. We do not believe that the drastic cut contained in S.1 is justified, and we urge you to adopt the provision of the House Subcommittee instead.

I would also point out that neither the House Subcommittee's proposal nor the provision contained in S.1 would provide for any phase-in period. As a result, the expectations of many people who are very close to retirement age would be frustrated by a sudden change in law. Therefore, we urge this Committee to adopt a provision that would phase-in the change in replacement rates up to the first "bendpoint" as follows:

For those reaching age 60 in 1984 ...... 85%
For those reaching age 60 in 1985 ...... 80%
For those reaching age 60 in 1986 ...... 75%
For those reaching age 60 in 1987 ...... 70%
For those reaching age 60 in 1988 ...... 65%
For those reaching age 60 in 1989 ...... 61%

Adoption of such a provision would provide notice to persons in non-covered employment to consider the change in law in their retirement planning.

I would also point out that this change would in no way jeopardize the Social Security financing package that you are now considering. The National Commission found that elimination of the windfall benefit would produce less than $500 million in savings between 1983 and 1989 -- a very small amount when compared to the entire package. Thus, a phase-in of this provision over a 5-year period would have a negligible impact on the trust funds, but would provide relief from an unexpected blow to many persons near retirement. We do encourage this Committee to correct the windfall situation without suffering the devastating effect of mandatory coverage -- which is analogous to using a baseball bat to kill a troublesome fly.

Thank you for allowing me to submit this testimony on behalf of PERA and OPPOSE.

TABLE 6-24. INCREASE IN TOTAL EMPLOYER-EMPLOYEE RETIREMENT COSTS (PLAN PLUS SOCIAL SECURITY TAXES) EXPRESSED AS A PERCENTAGE OF PAYROLL

		Constant-Benefit Step-Rate Plan					
Plan	Current Plan	Percentage-Point Increase Assuming 12.26% Combined Social Security Taxes			Percentage-Point Increase Assuming 15.30% Combined Social Security Taxes		
		(percentage of payroll)					
Large plans (1,000+ members)			Mean	4.98%		Mean	7.88%
			Median	4.35		Median	7.55
E1 – t[a]	11.89%	5.58%			8.62%		
E2 – p,f	14.83	6.38			9.42		
E3 – g,t,p,f	16.81	4.21[b]			7.23[c]		
E4 – g	16.27	1.83			4.87		
E5 – g	12.72	5.45[b]			8.23[c]		
E6 – t	18.92	3.60			5.64		
L1 – g	7.82	9.78			12.82		
L3 – g	14.39	3.66[b]			6.56[c]		
L6 – g	15.68	4.35[b]			7.55		
Medium-size plans (100-999 members)			Mean	4.21		Mean	7.01
			Median	4.33		Median	7.37
M1 – p	20.91	4.33			7.37		
M2 – g,p,f	19.87	3.47			6.51		
M3 – p,f	12.11	6.11[b]			9.25		
M4 – p	19.15	5.00[b]			6.34		
M5 – g,p,f	19.68	1.34[b]			3.84[c]		
M6 – g,p,f	19.73	2.25[b]			5.27[c]		
M7 – f	16.09	6.28			9.32		
M8 – f	30.06	0.80			3.84		
M9 – p,f	23.13	8.33			11.37		
Small plans (less than 100 members)			Mean	4.72		Mean	7.75
			Median	6.70		Median	8.44
S1 – p	17.87	5.43			8.44		
S2 – p,f	13.66	6.70			9.74		
S3 – p	22.72	6.87			9.91		
S6 – p	17.51	3.64			6.68		
T1 – p	31.58	4.46			7.50		
T3 – f	38.50	-1.00			+2.04		
T4 – p,f	23.90	6.95			9.99		

[a] In this coding, f = firefighter plan, g = general public employee plan, p = police plan, and t = teacher plan.

[b] Combined Social Security taxes somewhat below 12.26 percent because of salaries above the wage base.

[c] Combined Social Security taxes somewhat below 15.30 percent because of salaries above the wage base.

SOURCE: Calculated from AERF study data

TOTAL ASSETS
AS OF 9/30/82
OF NON-SOCIAL SECURITY SYSTEMS

Texas Teachers System	$ 7,313,000,000.00
California State Teachers	7,298,000,000.00
Ohio Public Employees	6,291,000,000.00
Ohio Teachers	6,176,000,000.00
Illinois Teachers' System	2,890,000,000.00
Colorado Public	2,760,000,000.00
Connecticut Systems	2,000,000,000.00
MA Employees-Teachers	1,942,000,000.00
Louisiana Teachers	1,574,000,000.00
Missouri Public School	1,467,000,000.00
Chicago Teachers Fund	1,280,000,000.00
Ohio Police & Firemen	1,228,000,000.00
Ohio School Employees	1,172,000,000.00
Kentucky Teachers	1,098,000,000.00
LA City Fire & Police	1,028,000,000.00
Louisiana State	901,000,000.00
Nevada Public Employees	777,000,000.00
Chicago Municipal	717,000,000.00
Chicago Police	496,000,000.00
Arizona Public Safety	400,000,000.00
Denver Public Schools	331,000,000.00
Chicago Firemen's Fund	305,000,000.00
Boston Retirement	278,000,000.00
Tampa Police & Fire	86,000,000.00
	$49,808,000,000.00

* This is not a complete list.

SOURCE: Pensions & Investment Age - January 24, 1983

Mr. **Strickland**. Mr. Chairman, I would also like to submit my written statement for the record, and will attempt to abbreviate my remarks before this committee.

[The prepared statement of Mr. Strickland follows:]

STATE OF LOUISIANA
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Shady Wall

Mr. Chairman and Members of the Committee:

This statement was adopted on February 9, 1983 by the Board of Trustees on behalf of more than 100,000 members and retirees of the Louisiana State Employees' Retirement System. This System, established in 1947, has never opted to be a part of Social Security.

First, we are pleased that the National Commission on Social Security Reform did not recommend mandatory inclusion of all state employees in Social Security.

Second, we are pleased that the Commission recognized that involuntary inclusion of state governments in the Federal Social Security System is not constitutionally permissible. The Office of the Attorney General, State of Louisiana, is one of many legal authorities whose research has resulted in this conclusion.

We are, however, dismayed that the Chairman of the National Commission on Social Security Reform has publicly stated that "were it not for constitutional prohibitions with respect to inclusion of state and local employees, universality would clearly be desirable". We must vigorously challenge his assumption that universality would clearly be desirable.

A. Principal Reasons Why Mandatory Inclusion of State and Local Employees in Louisiana Would Not Be Desirable from the Standpoint of Social Security

1. The Social Security Administration has long been recognized as a "social program" that redistributes income by paying proportionately more generous benefits to low-wage than to high-wage workers. Thus, including a group whose average income is less than the income of the national group currently covered would simply result in another net liability being added to Social Security. The following information was prepared by the Research Division, College of Administration and Business, Louisiana Tech University, from data supplied by the Regional Economic Information System, Bureau of Economic Analysis:

Employment and Earnings Data for 1980

	Earned Income	Employment	Earned Income Per Job
La.-State & Local	$ 3,181,724,000	265,522	$11,983
U.S.-State & Local	$ 177,146,000,000	13,362,000	$13,257
U.S.-Total Employment	$1,611,695,000,000	96,634,300	$16,678

2. We understand that the Social Security Administration has more than 100,000,000 active contributing participants and 36,000,000 monthly benefit recipients. Articles appearing in national publications within the past year indicate that the System has outgrown the computer system that it depends upon for maintaining individual records and getting the monthly checks out on time. The addition of new Federal employees and all non-covered employees of tax-exempt organizations as recommended by the National Commission on Social Security Reform will involve record keeping on a frequent basis for millions of new

participants for a system that is having extreme difficulty keeping pace with its present participants. We fail to see why it would be clearly desirable to compound the problem by adding several million more state and local employees to Social Security before it is clearly demonstrated that they have the capability to render efficient service.

B. Mandatory Inclusion of State and Local Workers in the Social Security System Will Remove the Substantial Investment of State Pension Funds In the Economy Each Year

In 1983 according to the Salomon Brothers' Booklet "Prospects for the Credit Markets", $12.2 billion of state pension funds will be invested in U. S. Treasury and Federal Agency Securities. An additional $12.3 billion will be invested in corporate bonds, $7.3 billion in corporate stocks and $1.3 billion in the real estate mortgage market.

No one can project with certainty how many billions of dollars would be lost from the capital markets should all state and local governments become subject to universal Social Security. However, we know that in the last fiscal year the amount of growth in our securities portfolio amounted to 54% of our gross income. We believe any reasonable person would concede that any such monies diverted to the coffers of Social Security would be quickly redistributed as monthly benefit checks and that the recipients would invest a great deal less than 54% in bonds, stocks, construction projects, banks, or thrift institutions.

Removal of these funds from the capital markets would result in corporate and Federal borrowers chasing a diminishing source of capital and bidding up the cost in the process. Federal borrowing costs are increased and the ability of American industry to compete in international trade is reduced.

C. Exploring the Merits of Mandatory Inclusion of State and Local Workers from their Standpoint

Mr. A. Haeworth Robertson, Social Security's Chief Actuary from 1975 to 1978, recently authored a book entitled "The Coming Revolution in Social Security" in which he states that of eighteen million employees with optional Social Security coverage, fourteen million are currently participating.

In the area of commerce, national policy has long opposed monopoly positions. We believe that the current optional participation is healthy. If Social Security can make its case that it offers a better value per dollar of contributions to our members than does our separate system, the door is already open for them to do so. Let the element of competition prevail. The burden is on separate systems such as ours to deliver a superior product to our members. If we fail, our members can demand an affiliation with Social Security in their own perceived self-interest with no change in the existing law.

Summary

A statement has been made that "were it not for constitutional prohibitions with respect to inclusion of state and local employees, universality would clearly be desirable". We believe we have demonstrated that universal coverage of state employees is clearly undesirable from the standpoint of Social Security, the national economic interest, and from the standpoint of the state employee groups who have not heretofore opted to join Social Security. We continue to feel that a freedom of choice should be afforded the American worker whenever possible, particularly in an instance such as this where the advantages of maintaining voluntary participation so greatly outweigh those that might result from mandatory coverage.

Mr. STRICKLAND. First, we are pleased that the National Commission on Social Security Reform did not recommend the mandatory inclusion of all State employees in social security.

Second, we are pleased that the Commission recognized that involuntary inclusion of State governments in the Federal social security system is not constitutionally permissible. The Office of the Attorney General, State of Louisiana, is one of many legal authorities whose research has resulted in this conclusion.

We are, however, dismayed that the Chairman of the National Commission on Social Security Reform has publicly stated that were it not for constitutional prohibitions it believes that coverage of all persons who are in paid employment is desirable. We must vigorously challenge this assumption.

First, the Social Security Administration has long been recognized as a social program that redistributes income by paying proportionately more generous benefits to low wage than to high wage workers. A Louisiana Tech University study made the following findings based upon U.S. Department of Commerce census data: In 1980, the earned income of an average employee of a State or local government was $13,257. The average earned income of an employee in any sector was $16,678. Thus, including a group whose average income is less than the income of the national group currently covered would simply result in another net liability being added to social security.

Second, I would like to point out that the independent public retirement systems have invested heavily in the financial markets of the United States. The total value of the 24 largest retirement funds of State and local employees not covered by social security is approximately $50 billion. Louisiana's public employee and educational retirement systems have assets valued at $3 billion. The assets of the other leading independent State funds are set forth on a sheet that I would submit for the record.

[The prepared data sheet of Mr. Strickland follows:]

TOTAL ASSETS
AS OF 9/30/82
OF NON-SOCIAL SECURITY SYSTEMS

Texas Teachers System	$ 7,313,000,000.00
California State Teachers	7,298,000,000.00
Ohio Public Employees	6,291,000,000.00
Ohio Teachers	6,176,000,000.00
Illinois Teachers' System	2,890,000,000.00
Colorado Public	2,760,000,000.00
Connecticut Systems	2,000,000,000.00
MA Employees-Teachers	1,942,000,000.00
Louisiana Teachers	1,574,000,000.00
Missouri Public School	1,467,000,000.00
Chicago Teachers Fund	1,280,000,000.00
Ohio Police & Firemen	1,228,000,000.00
Ohio School Employees	1,172,000,000.00
Kentucky Teachers	1,098,000,000.00
LA City Fire & Police	1,028,000,000.00
Louisiana State	901,000,000.00
Nevada Public Employees	777,000,000.00
Chicago Municipal	717,000,000.00
Chicago Police	496,000,000.00
Arizona Public Safety	400,000,000.00
Denver Public Schools	331,000,000.00
Chicago Firemen's Fund	305,000,000.00
Boston Retirement	278,000,000.00
Tampa Police & Fire	86,000,000.00
	$49,808,000,000.00

* This is not a complete list.

SOURCE: Pensions & Investment Age - January 24, 1983

Mr. STRICKLAND. Most of these funds are invested in common stocks, corporate bonds, U.S. Treasury notes, and real estate mortgages. Removal of these funds from the capital markets would result in corporate and Federal borrowers chasing a diminishing source of capital and bidding up the cost in the process. Federal borrowing costs are increased and the ability of American industry to compete in international trade is reduced. In summary, we believe that we have demonstrated that universal coverage of State employees is clearly undesirable from the standpoint of social security, the national economic interest, and from the standpoint of the State employee groups.

Thank you for allowing me to appear here today.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Mr. Chairman, I would like to express my appreciation to both the witnesses.

To be clear, the Commission's proposal is that there would not, in effect, be any further terminations, but it is not a proposal that will bring people into the system that are not now in the system. Isn't that right?

The CHAIRMAN. Yes.

Senator MOYNIHAN. So nobody is going to have anything done to them that they don't want. Now do you all recognize that?

Mr. SLAYBAUGH. Yes.

Mr. STRICKLAND. Yes.

Senator MOYNIHAN. And I take it that, Mr. Slaybaugh, you would like to see universal coverage if you could?

Mr. SLAYBAUGH. No, sir. I don't think I could agree to that. I would like to see termination stopped.

Senator MOYNIHAN. That's right.

Mr. SLAYBAUGH. Yes.

Senator MOYNIHAN. And that's what we are proposing.

Mr. SLAYBAUGH. Right. And I don't want to bring any more in.

Senator MOYNIHAN. Fine. I'm not trying to press you to any position that you don't have. And you are representing a group——

Mr. SLAYBAUGH. Yes.

Senator MOYNIHAN [continuing]. And not just speaking for yourself.

I would just like to ask Mr. Strickland this. The data that you very kindly brought us from the college of administration and business at Louisiana Tech—I do read it correctly, don't I? That if the Louisiana State workers were covered by social security they would have higher payments than they are receiving from their present arrangement? Or what was your intent there?

Mr. STRICKLAND. Well, my intent was to make the point that in a plan that takes from the high income to subsidize low income, that you do not help the financial condition of such a system by bringing in more basically low-income groups into your total program.

Senator MOYNIHAN. Yes, but you might help those individuals.

Mr. STRICKLAND. Even that I would be hesitant to agree to. I had an indication just this morning that said—as I saw the printed material—that it appears that it takes something like 3½ years for the contributor, lifetime contributor, to social security to recoup his money, as mostly checks upon retirement.

That number is much lower for our membership. It is something less than 1½ years for them to get their contributions back.

Senator MOYNIHAN. But you want to be left alone.

Mr. STRICKLAND. That's the bottom line. Yes, sir.

Senator MOYNIHAN. I think that's your message. And I think that can be arranged. [Laughter.]

Thank you very much, Mr. Chairman.

The CHAIRMAN. All right.

I appreciate also the statements. I guess what Mr. Strickland is saying is that employees of State and local government should be treated differently than the 100 million other Americans that are required to pay social security taxes.

Mr. STRICKLAND. Well, I think the committee should bear in mind that under the present program, according to the data furnished to me, that there was something like 18 million of State and local and nonprofit types, who heretofore have had this option of, to join or not to join. On a purely voluntary basis, some 14 million out of those 18 million have already opted to come in. So I guess I hesitate to make a distinction between the 4 million who haven't, and the 14 million who have. We all had the same choices, and some saw it differently from others.

Senator MOYNIHAN. Would the chairman yield for a question in that regard?

The CHAIRMAN. Sure.

Senator MOYNIHAN. But I believe Mr. Slaybaugh was making the important point that a lot of people are leaving this system through no desire of their own. Would I be correct in saying that the Los Angeles situation arises from a revenue constraint within the city of Los Angeles, as against any thought that there is a preferable arrangement with the employees?

Mr. SLAYBAUGH. I could not answer that, Senator. I don't have any firsthand knowledge.

Senator MOYNIHAN. I think that is the case. But regarding anyone who leaves, the people affected should have a say.

Mr. SLAYBAUGH. Yes, sir.

Senator MOYNIHAN. Fine.

The CHAIRMAN. We discussed many times the fact that the people who leave, don't leave because they want to. Most of the time they are the lower paid employees and their rights are sort of set aside.

It is my understanding that last year Congressman Pickle recommended an acceleration of State and local FICA taxes. We didn't put that in the Commission report. But you know what is going to happen. As we go through the package, we may be a few dollars short, or we may be a few dollars long. If we were long, it would be the first time in Government that we raised too much money. Do you have a position on this issue?

We had hearings on the acceleration of State and local tax deposits a couple of years ago. I know there is an argument for having a different deposit schedule for private employers than for State and local governments.

Mr. SLAYBAUGH. Senator, I went through this in 1976 and again in 1978. And it comes down to the fact that in public employment the reason we feel we should have the deposit structure we have, is because of the service that we are giving our small entities. And I think this year, Senator, if you would go into any State you would find out what I am talking about. We changed over this year to the annual wage report like the private sector does, and there is not one State in this country that has not been in contact with their political subdivisions. And they are finding out that some of them don't even make W-2 forms out, because they didn't think they had to. They didn't pay them very much money.

The W-2 form is now the vehicle to get your wages posted to the wage record for social security purposes. So we believe that we perform a valuable service. For that reason, we believe we should contain the liberal deposit schedule. If, in fact, down the road our coverage is changed, then I certainly think that should be looked at.

The CHAIRMAN. Well, we are not looking yet, but if we get into a bind and need $2 or $3 billion, that's one way to find it. That might just happen. If it happened on the House side we know that it would not be met with wild applause.

Mr SLAYBAUGH. Senator, it would hurt every State financially, my case included. It would hurt us drastically to have that done. And recognizing also that it would only help the trust fund 1 year. After that, there would be no benefit.

The CHAIRMAN. This is a matter of policy, don't you think? Do you think it's a good idea that we cover public employees under social security? In 1984 we are going to bring in Members of Congress, and the President, and the Vice President; even the Social Security Commissioner is going to be privileged to participate in social security. Do you agree that if it is good enough for the private employees, that it ought to be good enough for the public employees?

Mr. SLAYBAUGH. Senator, when that date comes, I will be very, very happy, because that is the single one most often heard complaint when I visit before any group in my State or any other State that is thinking about opting out. "Jerry, if it is so good, why aren't Members of Congress and the Social Security Administration people covered themselves?" And I have often said to them that they should be.

The CHAIRMAN. Well, you can keep saying that and by January 1, 1984, if this compromise passes, it will be a fact. I think we must be candid though. We want to please the people out there but——

Mr. SLAYBAUGH. You may be paying less.

The CHAIRMAN. The Members of Congress are probably paying more through self-employment taxes now than they would pay under this new system as employees. But if the people want us in the system, we certainly want to be in the system. I think that would clear up one of the major misconceptions about the whole program.

Senator Moynihan.

Senator MOYNIHAN. No, sir. Thank you.

The CHAIRMAN. I know Senator Long intended to be here, Mr. Strickland, but he had a policy luncheon to attend. It doesn't end until 2.

Mr. STRICKLAND. I see.

The CHAIRMAN. Thank you very much.

Mr. SLAYBAUGH. Thank you.

Mr. STRICKLAND. Thank you.

Senator MOYNIHAN. Thank you.

The CHAIRMAN. We now have a panel consisting of Mr. David Keating, executive vice president of the National Taxpayers Union; and Mr. Kevin O'Brien, counsel, Employers Council on Flexible Compensation. You may proceed in any way you wish. Your statements will be made a part of the record.

STATEMENT OF DAVID KEATING, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION, WASHINGTON, D.C.

Mr. KEATING. Mr. Chairman, and members of the committee, my name is David Keating. I'm executive vice president of the National Taxpayers Union. I would like to thank you for the opportunity to present testimony on behalf of our members on the financing problems of the social security system.

In 1977, Congress forced a bitter pill on the American taxpayer. According to then President Carter, record social security tax increases were to assure the system's soundness into the next century. As we all know, the system has barely made it into the 1980's.

The National Commission on Social Security Reform's recommendations are unacceptable to us because they rely too heavily on tax increases to maintain an unsustainable level of benefits. We believe the Commission has also failed to adequately identify the magnitude of the problems that social security faces. Consequently, its proposals, if adopted, will not assure the system's solvency.

Social security would remain exposed to another severe financing crisis—it could develop within a decade—further undermining public confidence.

There is little in the Commission's report to comfort taxpayers. For those young workers entering a career now, tax rates may reach 25 to 33 percent of payroll, under intermediate assumptions, in order to pay benefits being promised. That's more than double the current rate.

Pessimistic assumptions show tax rates could reach 40 percent of payroll in the next century. The question is, When will payroll tax increases stop?

The recommendations also propose placing a new and unjustified burden on the self-employed. Perhaps the Commission felt the self-employed are rich. Nothing could be further from the truth, as the table on page 3 of my statement shows. Almost half the self-employed earn less than $15,000 each year.

Not only did the Commission not adequately address the long-term problems of social security, we believe the short-term solution leaves little room for error. The economic assumptions show that one severe recession could put the system on the rocks again by the end of the decade. The Commission has assumed economic growth that's positive, near 3 percent, that unemployment will steadily fall, and that wages will rise faster than prices.

Even if you accept the Commission's estimate of a long-term shortfall of 1.8 percent of payroll, the recommendations only propose closing two-thirds of the gap. Nothing was proposed for the health insurance funds. No pessimistic projections were made.

The Commission's demographic and economic assumptions for the long term were, in our view, overoptimistic. One example is the assumption that the fertility rate will increase 12 percent above current levels, even though the Census Bureau recommends that planners use a rate no higher than the current fertility rate.

We understand Congress is going to try to resolve the short-term problems. We would like to see a gradual shift toward a fully funded retirement system. Therefore, we are recommending some interim solutions, such as the following:

We agree that the social security tax should be extended to all Federal employees, including Members of Congress. Exempting Federal employees and Members of Congress from paying the social security tax will exempt them from helping to pay the cost of supporting the needy elderly. We don't believe there is any principle of justice which states that public employees should be exempt from helping contribute to the Nation's largest welfare program.

We would also like to see any proposals to accelerate the payroll tax increases eliminated. We should not raise the self-employment tax higher.

In addition to delaying the cost of living increase by 6 months, we would also recommend indexing to the system to the annual percentage increase in wages minus 1.5 percent until the trust fund ratio exceeds 100 percent.

Another desirable reform would be to change the indexing provision of the average index monthly earnings, which is used to compute the initial social security benefit.

We believe that individual retirement accounts should be expanded so that people can better provide for their retirement future.

Finally, we believe commonsense and prudent planning dictate that we index the retirement age to gains in longevity. The most sensible approach would be to gradually raise the retirement age to at least age 68, and then index it.

If Congress does not do this, the social security system will soon face a long-term crisis of much larger proportions than the Commission or Congress is admitting to now.

Thank you.

[The prepared statement of Mr. Keating follows:]

STATEMENT OF DAVID L. KEATING, EXECUTIVE VICE PRESIDENT, NATIONAL TAXPAYERS UNION

Mr. Chairman, and members of the Committee, thank you for the opportunity to present testimony on the financing problems of the Social Security system and the recommendations of the National Commission on Social Security Reform.

In 1977, Congress forced a bitter pill on the American taxpayer. According to then President Carter, record Social Security tax increases were to assure the system's soundness into the next century. But the system barely made it into the 1980s.

The National Commission on Social Security Reform's recommendations, which have been endorsed by President Reagan and Speaker Tip O'Neill, are unacceptable to us because they rely too heavily on tax increases to maintain an unsustainable level of benefit increases. Under the 1977 law, the American taxpayer will be forced to pay an additional $300 billion of Social Security taxes from 1983 to 1989. In addition, the commission proposes accelerating payroll taxes, placing a much higher levy on the self-employed, and expanding coverage.

The commission also failed to adequately identify the magnitude of the Social Security system's financing problems. Consequently, its proposals, if adopted, will not assure the system's solvency. Social Security would remain exposed to another severe financing crisis that could develop within a decade, further undermining public confidence.

Windfall Benefits Must Be Reduced

The 1977 amendments did very little to control windfalls to current beneficiaries. We are pleased that the commission's proposals do more to curtail windfalls, but they are not enough.

Far too little attention has been paid to the magnitude of these windfalls. A 65 year old man with a non-working spouse who retired in June of 1982 would, by the end of March, have used up every penny he ever contributed to Social Security. He, and later his wife, would then continue to draw benefits, if they lived to their normal life expectancies, until after the turn of the century. Even if you allow for an inflation and interest factor, this couple will receive more than five times the benefits which they paid for.

In a pay-as-you-go system which embraces substantially the whole population, if one generation receives five times as much as it paid for, the next generation will receive much less. At a time of high unemployment, reduced growth and economic uncertainty, it is unfair to call upon the coming generations to subsidize the windfalls paid out to those who have already had jobs in a society which offered greater opportunity than that available to many young people today. It is common knowledge, for example, that many young people could not afford to buy their parents' home. In fact, less than one in ten can today afford to buy a new house, whereas in 1950 seven out of ten people could have afforded a new home.

The record of political and economic excess left behind by the retiring generations is as much their responsibility as it is the responsibility of those now working. It is fair and right that those who supported the policies which led this country to its current economic impass, and who not incidentally benefitted by them, should bear more of the responsibility and the cost of avoiding national financial ruin. A sound and fair policy would reduce the magnitude of the windfalls being conferred upon current beneficiaries, and thus reduce the loss upon those in the working generations who will be lucky to ever get back what they have paid into Social Security.

Economic studies confirm that higher taxes will hurt economic growth and throw more people out of work. For too long, Congress has treated Social Security tax increases as if they have no effect on the economy. This is clearly not the case.

There is little in the commission's report to comfort taxpayers, particularly young taxpayers. For those young workers entering a career now, tax rates may reach 25% to 33% of payroll under intermediate assumptions in order to pay benefits being promised. That's more than double the current rate. Pessimistic assumptions show that tax rates could reach 40%.

Self-Employed Tax Increases Unjustified

The recommendations also propose placing a new and unjustified burden on the self-employed. Perhaps the commission felt the self-employed are rich. Nothing could be further from the truth.

Number and Percent of Returns With
Self-employed Tax by Adjusted Gross Income

Adjusted Gross Income	Number of Returns	Percent of All Returns
Under $ 5,000	1,013,674	13%
Under $10,000	2,331,842	30%
Under $15,000	3,461,108	45%
Under $20,000	4,440,128	57%
Under $25,000	5,302,517	69%
Under $30,000	5,948,171	77%
TOTAL RETURNS	7,723,051	

Source: 1980 Statistics of Income, Individual Income Tax Returns and NTU staff computations.

As the table shows, almost half the self-employed earn less than $15,000 each year. The marginal tax rate at that bracket is 21% for singles and 17% for those filing joint returns. Even though the self-employed will be allowed to deduct the so-called "employers" share of the Social Security tax, their tax burden will go up tremendously. In fact, the lower the income of the self-employed person, the higher the overall tax increase.

If you work for a large corporation, quit and earn the same salary being self-employed, you will pay a much higher tax. Many corporations can obtain tax savings of 46% of the employers share of the Social Security tax, while most of the self-employed will obtain tax savings of less than 21%.

If the committee approves this recommendation, it would only be fair to allow the self-employed to deduct other costs. If the self-employed person purchases health insurance, let him deduct that as a cost of doing business. Other fringe benefits which are non-taxable for employees should be non-taxable for the self-employed.

Recommendations Are Inadequate

We are also disappointed that the commission did not adequately address the long-term problems of the Social Security system. We also have considerable doubt about the adequacy of the proposal as a short-term solution.

If one closely examines the economic assumptions used to determine the estimated $150-$200 billion shortfall for the OASDI trust funds from years 1983 to 1989, it's clear that one severe recession could put the system on the rocks again. The commission assumes economic growth will remain positive for the remainder of the decade at rates near 3%, that unemployment will steadily fall and that wages will rise faster than prices. Even using the commission's own assumptions, the $169 billion recommendation is on the low end of the estimated shortfall.

Accepting the commission's estimate of a long-term shortfall of 1.8% of payroll, the recommendations only close two-thirds of the shortfall in the OASDI funds. Nothing is proposed for the huge shortfall projected for the Health Insurance (HI) funds. No alternative pessimistic estimates were made.

The commission's demographic and economic assumptions are defective. For one thing, they are contradictory. For example, the commission assumes that we will have a 1.5% real wage differential, that is, the percentage increase in average annual wages will exceed the percentage increase in the average annual consumer price index by 1.5%. In other words, we will steadily become richer. Yet, even though we become richer, the commission predicts our life expectancy won't grow as fast as it has been recently. During the 1970s, when the real wage differential was negative, life expectancy for males at age 65 increased by 1.1 years and life expectancy at birth for males increased by 2.7 years. If we extrapolate these trends to the year 2020, life expectancy at 65 for males will be 17.6 years and life expectancy at birth will be 80.6 years. The commission has assumed figures of 16.4 and 73.8 respectively. Even under its "pessimistic" assumptions, it estimates 18.8 and 77.7 respectively.

Future medical advances could easily cause the long-term shortfall to mushroom. Under the "pessimistic" assumptions, the long-term gap would be closer to 5.5% of payroll. If the commission is right in assuming a steady increase in wealth, it is most likely to be wrong in not correlating the increased wealth to increased life expectancy.

In either case, all of these estimates ignore the financial status of the HI fund. Again, under the commission's assumptions, there's a long-term gap of over 7% of payroll for Social Security over the next 75 years.

The commission also assumed that the fertility rate will increase 12% above current levels, even though the Census Bureau recommends that planners use a rate no higher than the current fertility rate. A. Haeworth Robertson, former Chief Actuary of the Social Security system from 1975 to 1978, says "all indications are that fertility rates will remain at their present levels or decline rather than increase." Assuming higher fertility rates understates the long-term shortfall.

Common sense and prudent planning require that we index the retirement age to gains in longevity. The most sensible approach would be to gradually raise the normal retirement age to at least age 66 or 68, and then index it to changes in life expectancy. If Congress does not do this, the Social Security system would face a long-term crisis of much larger proportions than Congress will admit to now.

We also strongly oppose the recommendation to take Social Security off the federal budget. Taking Social Security off the budget would vastly understate the costs and the size of the federal government and its economic impact. Removing it from the budget will make it more poorly understood. Currently, the President's annual budget submission and congressional debates on the budget serve to increase awareness of the Social Security system, its benefits and its costs.

Taxation of Benefits

We also have problems with the proposal to tax benefits beginning at $20,000 for single persons and $25,000 for those couples filing joint returns. We agree that benefits should be taxed as a way of reducing huge windfalls to those who do not need them. Currently, the average retiree can expect to collect about 5 times the amount paid into the system, including interest.

Our objection centers on the fact that under the commission's proposal there would be perverse effects which are hard to justify. A person who earned just a few dollars over $20,000 would actually find himself with substantially lower after tax income than someone who earned $19,900. This is clearly unfair. It would be better to exclude all Social Security benefits from tax until the benefits paid exceed the taxes paid plus interest. Thereafter, all Social Security benefits should be treated as ordinary income for tax purposes.

Although we applaud the recommendation by the commission to include new federal workers in the Social Security system, it's unfair to exempt all current federal employees, including members of Congress, from paying this tax.

This is unfair because the Social Security system is part welfare program and part insurance program. By exempting federal workers and members of Congress from paying any Social Security tax on their federal salaries, we are exempting them from helping to pay the costs of supporting the needy elderly. Is there any principle of justice which states that public employees should not contribute to the nation's largest welfare program? It is all the more important that federal employees be obliged to pay because the great majority (75%) will find ways to qualify for benefits anyway, thus capturing additional windfalls.

Actuarial estimates indicate that if all federal employees and members of Congress were put into the system, just like the vast majority of other working Americans, there would be no need to accelerate payroll tax increases.

Additional Short-Term Recommendations

The National Taxpayers Union supports major long-term reform. We should seek to base benefits directly on contributions and we should move toward a fully-funded retirement system. We realize that it may take years for Congress to accept this view. Therefore, we are recommending some interim solutions. The following modifications, in our view, would vastly improve the commission's recommendations:

1) We should extend the Social Security tax to all federal employees, including members of Congress, and eliminate the proposal to accelerate payroll tax increases. This would eliminate the windfall benefits that many of these employees now receive. It would also subject them to the same tax paid by most Americans.

2) In addition to delaying the cost of living increase by six months, we recommend, at a minimum, indexing the system to the annual percentage increases in wages minus 1.5%, until the trust fund ratio exceeds 100%. If the consumer price index is less than 3%, there would be no benefit increase. Whenever this ratio is achieved, the system could be indexed as it is under present law.

These two changes would eliminate the need for any further payroll tax increases and would much better guarantee the solvency of the system through the 1980s.

3) Another desirable reform would be to change the indexing provision of the average indexed monthly earnings (AIME). The AIME is used to compute the initial Social Security benefit. Changing the indexing from the increase in average annual wages to the increase in prices would greatly reduce the program's unfunded liabilities. Even a slight change from the current wage indexing toward price indexing would greatly improve the solvency of the system.

4) Congress should expand Individual Retirement Accounts (IRA). The maximum IRA contribution should be raised, and indexed, to equal the maximum Social Security tax paid by employees. Self-employed persons should be able to contribute to their IRA up to the maximum Social Security tax. This would better enable people to prepare for a more secure retirement future. IRAs provide good benefits, encourage savings and will help our economy.

Congress should also allow people to use their IRA investments to provide enhanced disability and old age health insurance benefits.

5) Congress might wish to form a commission to study alternative long-term solutions to the Social Security problem. The mandate for this commission should be to examine and report on the most feasible proposals to convert it to a fully funded program and/or transform it to a program where welfare and insurance benefits are separated, with insurance benefits paid on an actuarially fair and sound basis.

Long-term Reform

In his book, Social Security: The Inherent Contradiction, Peter J. Ferrara shows some stunning facts about how inefficiently Social Security provides for people's retirement. For example, he examines an average income worker who starts working at age 22 and earns an average income until retirement. If he were able to save and invest in a retirement fund the money he will have to pay in Social Security taxes, Ferrara estimates that that worker could retire on "three and a half times what Social Security would pay," if single, and about "two and one half times what it would pay" if he was married with a non-working spouse. This average worker would still be able to leave an estate of almost half a million dollars.

Using different assumptions about income for various workers now entering the work force, he finds that a fully funded private retirement fund can sometimes pay more than 7 times what Social Security could pay.

Incidentally, any additional increases in taxes or reduction in future benefit increases, such as those being contemplated by Congress today, would make this comparison even more favorable for a private retirement fund.

The reason for these large disparities is that Social Security taxes are paid out in the form of benefits almost as soon as they are collected and the individual loses the benefit of compound interest. Because an individual saves for his own retirement benefits by earning a positive rate of return on his savings, the benefits of this plan would be tremendous.

Ferrara points out that the Social Security has an "inherent contradiction," that is, it trys to achieve two goals that are contradictory: a welfare function and an insurance function. Ferrara explains that "Social Security serves an insurance function by paying benefits when a person retires, is disabled, dies, or is hospitalized . . . . Social Security serves a welfare function . . . (by paying) benefits to some invidividuals solely because it is felt they are in need." By pursuing these two goals, Social Security winds up doing an inadequate job on both of them.

The Social Security system's welfare function is particularly inefficient because it pays welfare-type benefits to those who do not need them, while also relying on a regressive tax.

There are several ways a reform could be implemented. The best way would be to steadily phase it in. The first step would be to separate the welfare and insurance functions of Social Security. This would solve the contradiction causing the current problems in Social Security. The two functions would be separately funded. The insurance function would be paid for by payroll taxes. When retiring, a worker would receive an actuarially fair benefit based on the amount of payroll taxes paid during his lifetime. Those whose benefits would not be adequate would be funded through general revenues. The next step would be to greatly expand the current IRAs. Eventually, IRAs should allow the annual maximum contribution to equal the amount of both the employer and employee Social Security tax. It would allow individuals to purchase life, disability, and old age health insurance with the money saved in these accounts, in addition to the retirement investments currently permitted.

The next step is to allow individuals to deduct their annual contributions to the accounts from their Social Security payroll taxes. Individuals could also direct their employers to contribute the employer's share of the tax to the IRAs, with the employer again deducting this contribution for his own Social Security taxes.

Social Security benefits of individuals would then be reduced proportionately to the extent they took advantage of this option. For example, if an individual deducted 20% of his payroll taxes during his entire working life, his Social Security benefits would be reduced by 20%. Since individuals are replacing these lost benefits by benefits from the private sector alternatives, and since these alternatives should be superior to Social Security, individuals who took advantage of this option would receive higher benefits than under the current Social Security system.

Two further tax changes would be necessary. First, the benefits paid out of IRAs should be on the same tax basis as Social Security benefits are. Second, investments made through IRAs should be exempt from both branches of the double taxation of corporate income. These same tax rules should apply to life, disability, and old age health insurance policies purchased through IRAs.

After these changes, the government would continue to pay the otherwise promised Social Security benefits, as modified by the recommendations from the commission that Congress adopts. The lost payroll taxes could be replaced by general revenues. Over time, the amount of this subsidy would decline as more individuals retired with a larger portion of their retirement benefits from the private alternatives. If the new tax exemptions for IRA investments and insurance purchases were delayed, the investment of Social Security taxes and IRAs would result in an increase in general revenues which would reduce the necessary general revenue subsidy. Eventually, either or both of these factors would offset the subsidy entirely.

We do not favor using general revenues to pay Social Security benefits except as a "buy-out" for a major reform of this type.

To alleviate the budgetary impact, the alternative should be phased in slowly over time. This could be done by first limiting the deductible amount of IRA contributions to 20% of Social Security taxes. This limit could be gradually raised to 100% over a 30 year period.

The fundamental objective of this plan is to assure that every worker would receive at least as much in benefits as they can expect to receive in the current Social Security system, with today's younger workers receiving much more.

This plan will vastly increase private savings and investment. A sharp increase in savings and capital investment should result in a sharp increase in economic growth. Economists estimate that a permanent increase in savings and capital of

40%, which is approximately what this plan would generate when phased in, would result in a permanent increase in GNP of 19%. In today's economy, such an increase would mean over $2,500 for each person in the United States.

Young people would find their benefits would be several times the benefits they would have otherwise received through Social Security. Each individual would be free, within limits, to choose a packet of retirement and insurance coverage that best suited his own individual characteristics and preferences. The current Social Security system is relatively inflexible and benefits cannot be customized. The inefficient waste of welfare benefits paid through the Social Security system would be eliminated.

Such a system would also not be subject to politically expedient manipulations. Benefits could neither be overextended nor cut.

Personal liberty would be increased as individuals could choose their own package of retirement insurance protection. The reform would leave in place a requirement that individuals save for their old age and other insurance contingencies. All of this could be accomplished without increasing Social Security taxes or cutting Social Security benefits. Yet the long-term Social Security financing problem will have been solved. Our economy would also receive a much needed boost.

STATEMENT OF KEVIN P. O'BRIEN, COUNSEL, EMPLOYERS COUNCIL ON FLEXIBLE COMPENSATION, WASHINGTON, D.C.

The CHAIRMAN. Mr. O'Brien.

Mr. O'BRIEN. Mr. Chairman, members of the committee, my name is Kevin O'Brien, and I am appearing today on behalf of the Employers Council on Flexible Compensation.

The Employers Council on Flexible Compensation is a national nonprofit organization organized by some 62 member companies to promote and improve flexible compensation arrangements with their employees.

My purpose in testifying here today is to limit my comments to one technical recommendation appearing in the Social Security Commission's recommendations. That is, recommendation No. 17. A similar proposal is found in section 305 of S. 1.

Flexible compensation is a growing form of compensating employees which permits the employees to elect to see the benefit package that they want. The traditional standardized compensation programs have been found to be overly rigid. They do not give the employee, in many cases, what the employees really want or need.

One aspect of the flexible compensation movement is seen in so-called cash and deferred profit-sharing plans. This kind of arrangement is a plan whereby the employee is permitted to elect to either receive currently some cash, or to defer the amount of cash that he otherwise could receive through a traditional qualified profit sharing arrangement.

The essence of these cash and deferred profit-sharing plans, together with other forms of flexible compensation, is that the employee is taxed on what he eventually selects as a benefit; not on what was available to him.

Again, 401(k) of the Internal Revenue Code is the section that we are dealing with in cash and defer plans, and it is but one form of flexible compensation. In one of these arrangements it is a tradeoff only between cash currently and retirement benefits in the form of profit sharing. A participant who elects to defer amounts under the 401(k) plan is deferring it under a plan that is truly a retirement vehicle. The employee is fully vested on the contributions that he makes to the profit-sharing plan. The benefits are locked in until the employee reaches age 59½ at least, or unless he terminates earlier, or unless he incurs a hardship. There are, finally, as in any qualified retirement plan, rigid rules of nondiscrimination that apply to insure broad based coverage of a corporation's employees.

We disagree with the recommendation of the Commission on including payments to a cash deferred profit-sharing plan within the wage base for four reasons.

First, we think that it is inequitable to single out one form of qualified plan for special treatment. There are many forms of compensation where employee choice is involved. This happens to be the newest, perhaps one of the more innovative areas. And I think, again, it is just unfair to single out one type of plan.

Second, we think that there will be administrative complexities resulting from this proposal. It will require different payroll withholding mechanisms for both income tax withholding and the FICA tax withholding.

Third, we think that it will retard participation in these plans. I think this will happen for two reasons. No. 1, I think the employers will be less likely to adopt arrangements of this sort. There is no secret that there is some employer tax savings involved if there is no FICA tax on employee contributions toward the plan. Second, I think it will reduce the amount that the employees, particularly the lower paid employees, can contribute to these plans. The studies have shown that the average employee does just as well, if not better, by investing the amounts that he could defer under—could save his taxes under one of these arrangements when he puts it into a 401(k) plan.

Finally, we think that this issue should only be considered as part of a larger look at employee benefits, and their role in the wage base for social security purposes.

The recommendations of the Social Security Commission made it clear that there was no immediate revenue impact with this recommendation. We are very early in the game. We don't know how much leakage there will be in the social security system because of these plans. And we would recommend that we defer consideration of this issue at this point.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. O'Brien follows:]

Statement Of Kevin P. O'Brien
On Behalf Of The
Employers Council On Flexible Compensation (ECFC)
Prepared In Connection With The
Hearings Before The
Committee On Finance On
Financing Problems Of The Social Security System

February 22, 1983

TOPICAL OUTLINE

The proposal to include contributions under cash or deferred arrangements (§ 401(k) plans) in the OASDI-HI wage base should be deferred for further study because:

A. the proposal is inequitable in that it singles out a certain type of retirement plan for treatment different from other economically similar arrangements;

B. the proposal will create administrative complexities;

C. the proposal may not be in the best interest of affected employees and may retard participation in § 401(k) plans, thus reducing capital accumulation and retirement savings;

D. the present revenue impact of the proposal for the Social Security System is believed to be small.

Statement Of Kevin P. O'Brien
On Behalf Of The
Employers Council On Flexible Compensation (ECFC)
Prepared In Connection With The
Hearings Before The
Committee On Finance On
Financing Problems Of The Social Security System

February 22, 1983

The ECFC is a national nonprofit organization committed to the promotion and improvement of flexible compensation programs. A list of the ECFC membership is included at the end of this statement.

I. Introduction

ECFC commends the National Commission on Social Security Reform on developing a broad consensus on areas of change which can help solve the financial plight of the Social Security System. Our purpose in appearing at these hearings is limited to commenting on one technical recommendation (Recommendation No. (17)), which would include contributions by employers to certain private profit sharing retirement plans in the wage base for purposes of the OASDI-HI tax and for benefit credit purposes. Recommendation No. (17) appears in the Commission's Report on pp. 2-18 and 2-19 and is not part of the Commission's "consensus" package to provide additional financial resources. Proposed legislation along the same lines is included in section 305 of S.1, the Social Security Amendments of 1983.

II. General Background -- Flexible Compensation

"Flexible compensation" means that employees are offered a variety of benefits and are permitted to select the benefits that they want. Traditional, standardized compensation programs result in wasteful expenditures for benefit coverage that some employees do not need or want while denying employees access to many valuable benefits because such benefits are not needed or desired by most other employees.

Flexible compensation plans are the most cost effective way to provide a sound benefit program to employees. Such plans vastly improve the availability of coverage for a given dollar of expenditure. Allowing each employee to elect how the employer's expenditure is to be allocated among a "menu of benefits" guarantees that each benefit dollar achieves the maximum amount of return in terms of employee satisfaction and morale. Accordingly, such programs can be expected to increase productivity. The element of employee choice is, for example, believed to be a significant factor in health care cost containment.

In 1978 and 1980 legislation, provisions of the Internal Revenue Code now found in § 125 and § 401(k) took major steps toward facilitating the expansion of flexible compensation programs. These sections in essence provide that participation in nondiscriminatory programs which constitute cash or deferred plans or so-called "cafeteria plans" and which provide an individual choice to employees among benefits such as retirement savings, health care, life insurance, etc., or additional cash compensation, will not result in adverse tax consequences for an employee solely by reason of the availability of such choice. In other words, an employee who elects additional cash compensation or taxable benefits will be taxed accordingly, but an employee who elects health or retirement benefits, for example, which are excludable from income or wages under specific Code provisions, will not be taxable on amounts contributed by his employer to the program merely because he could instead have elected cash or other taxable benefits. In order for employees covered by a flexible plan to be protected by these rules, the plan must not discriminate in favor of highly compensated employees.

III. Putting § 401(k) Plans in Context

Under a traditional "cash or deferred arrangement" (often called a "§ 401(k) plan"), the employer allows an employee to elect each year whether the profit sharing bonus (if any) which may be declared at year-end will be set aside in a tax-qualified retirement fund or paid to the employee in cash. Such plans have been approved by the Internal Revenue Service for over 25 years, subject to compliance with rules insuring that actual participation elections do not unduly favor highly compensated employees. Contributions to provide retirement benefits under a qualified cash or deferred arrangement are treated in the same way for tax purposes, including OASDI-HI, as company contributions to any other retirement program. Unlike employee voluntary contributions, which may be withdrawn at any time, contributions to these plans provide true retirement benefits which may not be withdrawn during employment prior to age 59-1/2, except in cases of hardship. Accordingly, employees are not subject to tax on these benefits until received at or after retirement, at which time benefit payments are subject to income tax and are exempt from OASDI-HI in the same way as other qualified retirement programs. Of course, if an employee does not elect to participate, any cash bonus which he receives is "wages" for all purposes, taxable currently in the year of receipt.

Because cash compensation is economically the same whether it is received as a bonus or spread over a year as "regular" pay, Internal Revenue Code § 401(k) does not draw any legal distinction between plans such as those described above, in which the employee may elect retirement benefits in lieu of a bonus, and plans which permit the employee to elect retirement benefits in lieu of regular pay or in lieu of a pay increase. To differentiate between bonus and salary reduction plans would create meaningless distinctions easily circumvented by restructuring pay and benefit mixes.

Plans subject to Code § 401(k) vary widely in design. For example, the amount which an employee can receive in cash is not necessarily equal to the amount which will be contributed if the cash option is foregone. In some plans the company contribution for employees who elect to participate may be substantially greater (e.g., 400%) than the cash option, may vary widely with profits, and may constitute a different percentage of compensation for different employees (i.e., a lower paid employee who elects to participate may receive a relatively higher contribution in relation to the cash option than would a higher paid employee). In other words, § 401(k) plans cannot be simplistically viewed as merely a choice between cash or an equal amount of benefits.

In some bonus-type § 401(k) plans the election is made only once annually, at a time well in advance of declaration of the bonus, and often before it is known whether there are profits or whether the amount of profits will support a contribution for the year. In other plans more frequent elections are available.

It is also important to realize that many other types of fringe benefits, including qualified pension and profit sharing programs not described in § 401(k), are optional or contain optional features. Frequently company contributions are made for an employee only if he chooses to participate in the program. An employee may elect to participate or not for various personal or economic reasons, whether or not any cost is imposed or any measurable alternative offered. For example, before 1982 employees frequently elected to forego company contributions to retirement plans in order to obtain the tax benefits of IRA deductions.

There are also many common instances not covered by § 401(k) in which employees have the opportunity to receive cash in lieu of some other form of remuneration, present or future. For example, an option to defer a bonus, raise, or regular salary on an unfunded basis, to exercise a stock appreciation right in lieu of a related stock option, to take additional vacation rather than receive salary, etc. And many qualified plans, unlike § 401(k) plans, do not require that distributions generally be postponed until age 59-1/2, and may permit in-service withdrawals at any time for any reason; an employee with an account balance may obtain additional cash, in lieu of retirement savings, merely by exercising a continuing right of withdrawal.

Section 401(k) plans are, therefore, only one isolated instance of employee choice. The essence of flexible compensation is that tax consequences for employees should be based on the bottom line of the compensation package which reflects the mix of salary and benefits which the employee receives. Creation of isolated exceptions to this approach can only result in confusion and inequities.

IV. Problems Raised by Recommendation No. (17)

A. Inequities

The proposal raises serious questions of equity as between employees in § 401(k) plans and employees in other qualified plans, many of which freely permit withdrawals, or who have other types of control over their compensation mix. Voluntary savings through IRAs or qualified voluntary employee contributions under the Economic Recovery Tax Act of 1981, although deductible for income tax purposes, are included in the Social Security wage base; however, those kinds of savings vehicles are individual arrangements; § 401(k) plans, like all other employer maintained qualified retirement plans, must be broad based programs with nondiscriminatory participation and benefits.

B. Administrative Complexities

The proposal also will lead to administrative complexities:

(a) it would create a second definition of wages which must be integrated into the payroll system (a few employers already keep a separate calculation which includes the § 401(k) elective contribution, for purposes of calculating the level of pensions and other fringe benefits);

(b) it departs from the usual conformity in the definitions of wages between OASDI-HI taxes and Federal Unemployment Tax Act (FUTA); thus, to the extent that FICA/FUTA and income tax withholding are already based on different concepts, a third category would be created;

(c) where the § 401(k) contribution is made only once annually, after year-end, the entire contribution, for high and low paid alike, would be subject to OASDI-HI tax, which would be too large to deduct from the week's cash pay and would have to be deducted from the employer's contribution to the plan, thus directly reducing the amount being set aside for retirement.

C. Other Considerations

Even apart from the inequities and administrative problems which are created if special exceptions are made in the otherwise bright line between pay and benefits, it is by no means clear that policy or revenue considerations favor changing the rule for § 401(k) plan contributions. Most experts view § 401(k) as an extremely desirable vehicle for encouraging capital accumulation and simultaneously increasing retirement security on a broad nondiscriminatory basis. These objectives remain high priorities for Congress and this Administration. While another important goal is to insure the financial soundness of the Social Security System, it is not clear that this latter goal will be enhanced significantly by the proposals and it is very possible that the objectives of capital accumulation and encouragement of retirement savings will be undermined.

The vast majority of the membership of ECFC, consisting of experienced benefits experts and consultants as well as most of the major companies with experience administering § 401(k) plans, believe that Recommendation No. (17) is unwise in singling out § 401(k) plans for special treatment, or that there is insufficient data to support making a change at this time. These views are not unanimous; some of the membership, including most notably Pfizer Inc. (which has actively sought this change), favor applying the OASDI-HI tax to § 401(k) contributions.

Those who favor the proposal and those who oppose it are in agreement that § 401(k) plans (and flexible compensation in general) are desirable phenomena and that the tax laws should be designed so as not to discourage high rates of participation by rank-and-file employees. The proposal would make § 401(k) relatively more burdensome from a cash-flow standpoint for impacted employees, primarily those employees whose compensation is below the wage base at the time of the contribution (in bonus-type plans where contributions are made early in each calendar based on the previous year's profits, most employees would be affected, but for higher paid employees this affect would be offset by an increase in cash flow later in the year). Otherwise, employees whose total cash compensation equals or exceeds the wage base would not pay increased taxes under the proposal; however, those in the highest paid one-third would be indirectly affected because the level of contributions on their behalf is limited by the nondiscrimination rules of § 401(k) to an amount which is determined in relation to average contributions elected by the lower paid two-thirds.

Under present law, it is generally agreed that most employees probably lose nothing in the way of retirement security by reason of the exclusion of qualified plan contributions from the wage base if it is assumed that the current tax savings are used to provide additional benefits. This holds true for § 401(k) plans. If an average employee elects to have his employer contribute to a § 401(k) plan an additional amount equal to the OASDI-HI tax which he would have had to pay had he not participated, numerous studies have concluded that such amount invested at interest during the period until retirement will usually produce a larger retirement annuity than the reduction in the Social Security benefit which would result from such additional contribution having been received in cash and included in the wage base. This is particularly true where, as is commonly the case, the employer maintains an integrated pension plan which provides a benefit that takes into account the level of Social Security.

Apart from the relative value of benefits, an employee might prefer benefits under a § 401(n) plan to additional Social Security benefits because of the availability of a lump sum death benefit and more flexible methods of receiving benefits during retirement.

Disagreement centers around the issue of whether, notwithstanding these considerations, the proposal would have the effect of increasing or decreasing participation by rank-and-file employees. Support for the amendment appears to be based primarily on concern that employees may not understand the actual economics. Most ECFC members, however, believe that employees do understand the economic realities and are concerned that participation by rank-and-file, and hence future retirement security from Social Security and private plans combined, may be reduced if the law is changed.

V. Conclusion

In conclusion, although there is a possibility that it can be demonstrated that the OASDI-HI base should take into account some or all fringe benefits, ECFC believes that there presently is insufficient evidence to support that conclusion and that there may be negative consequences from singling out one aspect of the issue for special treatment. In view of the fact that no significant current revenue is attached to Recommendation No. (17) (see National Commission's Report, p. 2-18) the proposal should be deferred for further study. This study should not focus on isolated types of benefits, such as plans coming within Code § 401(k), but should look at the issue of whether a broadly different approach should be taken to the relationship between fringe benefits and the OASDI-HI base. Only in this way can economic distortions and inequities be avoided and a sound judgment made concerning the proper treatment of contributions to qualified retirement plans.

Kevin P. O'Brien
Washington Counsel

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The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. I have no questions, Mr. Chairman.

I would like to thank both of our witnesses for very careful and fine statements with respect to matters that we obviously have to deal with. Mr. O'Brien, I think that you should be assured that we will give very careful consideration to your very precise——

Mr. O'BRIEN. It's very technical. I agree.

Senator MOYNIHAN. But more power to your movement. And we wish you well.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Moynihan.

Mr. Keating, you criticize the deduction for half the proposed increase in the self-employment tax because the deduction benefits higher income workers more than lower income workers. Would your concern be eliminated if the deduction were changed to a limited tax credit?

Mr. KEATING. Well, we believe that would be a better approach because it would be more equitable. I would prefer to see the system as it is now, with the self-employed paying one particular rate. That would make it simpler for them to fill out their tax forms and there would be no question of an additional general revenue subsidy.

The CHAIRMAN. You also suggest that we increase the IRA contribution limits to match the maximum employee social security tax. Do you have any revenue estimates on how much that would cost?

Mr. KEATING. No, I don't. I will send you a letter with the best estimate that I can put together.

The CHAIRMAN. And along with that letter, how would you tell us how you would make up the revenue we lose?

Mr. KEATING. OK.

[The letter from Mr. Keating follows:]

NATIONAL TAXPAYERS UNION

A NONPARTISAN, NONPROFIT ORGANIZATION DEDICATED TO THE PUBLIC INTEREST

WASHINGTON, DISTRICT OF COLUMBIA 20003

March 4, 1983

The Honorable Robert J. Dole
Chairman, Committee on Finance
Room SD-221
United States Senate
Washington, D.C. 20510

Dear Senator Dole:

During my testimony on the Social Security System you asked me for the estimated revenue loss of my recommendation that Congress expand individual retirement accounts (IRAs) so that the maximum IRA contribution equals the maximum Social Security tax paid by employees.

This estimate is difficult to make, because 1982 was the first tax year that IRAs were open to every worker. These tax returns have not yet been filed by most taxpayers and no preliminary statistics are available from the Internal Revenue Service.

Nevertheless, according to preliminary data compiled by Goldman, Sachs & Company's economic research unit, IRAs are expected to receive $30 billion in the 1982 tax year. By comparison, only $3.4 billion went into IRAs in 1980. This is good news. It shows that Americans are taking advantage of the excellent additional retirement security benefits offered by IRAs. Our nation's depleted savings are also receiving a much needed boost.

I have projected that IRAs, under current law, will receive $33 billion in 1983, $35 billion in 1984, and $37 billion in 1985. If the IRA contribution limits are raised to equal the maximum Social Security tax paid by employees, I estimate that during those three years an additional $26.7 billion will flow into these accounts. I used the maximum employee annual tax estimates from the Social Security Commission's report.

This would translate into a revenue loss of approximately $1.7 billion in 1983, $2.7 billion in 1984, and $4.9 billion in 1985, for a total of $9.3 billion during those three years. This is a static estimate, that is, I have assumed no revenue increases from increased economic growth resulting from this boost in savings.

You also asked for suggestions of how this revenue loss could be compensated for. As I indicated in my testimony, we feel that all federal employees should pay Social Security tax. The estimates of the National Commission on Social Security Reform confirm that the revenue gain from making federal employees pay Social Security tax would greatly outweigh this relatively small revenue loss. Alternatively, we would favor enactment of user fees as another means to offset this revenue loss. Federal spending could also be cut by restraining cost of living increases in entitlement programs.

Incidentally, the estimated revenue effects for H.R. 4242, the Economic Recovery Act of 1981, underestimated the revenue loss from universal IRAs by almost a factor of four. This is because the estimate of the amount that would enter IRAs was underestimated. This is further evidence that government revenue estimators have grossly underestimated the sensitivity of savings to the after-tax rate of return.

Clearly, more individuals will be relying on IRAs to provide a secure financial retirement. Congress should assure that the maximum IRA contribution keeps pace with inflation and retirement needs. The best way to do this would be to allow the maximum IRA contribution to equal the maximum Social Security tax paid by employees.

Please let me know if I can be of further assistance to you on this proposal.

Sincerely,

David L. Keating
Executive Vice President

DLK/sam

The CHAIRMAN. I assume we would lose some.

Mr. KEATING. Well, I can think of one good one right off the top of my head, and that's to limit the deductibility of State and local taxes. We think there are problems with that. Basically, State and local governments aren't fully accountable for the taxes that they levy because these taxes can be deducted on the Federal forms, making it cheaper for legislators to levy higher taxes, and to raise taxes. That would be a good approach.

The CHAIRMAN. You would support that effort to not allow a deduction of sales tax?

Mr. KEATING. We would as long as something else was bargained on the other side. For example, expanding the IRA limits or some other form of tax rate reduction.

The CHAIRMAN. Well, good. We may have an opportunity to talk to you later then. We are going to be a couple hundred billion dollars short so maybe you could help us find it. If we lose withholding that's $20 billion more.

Let's see now. Mr. O'Brien, are you suggesting that we take another look at the taxation of deferred compensation—what's the section in my bill?

Mr. O'BRIEN. Section 305.

The CHAIRMAN. In the Moynihan-Dole bill?

Mr. O'BRIEN. Yes, sir.

The CHAIRMAN. Are you suggesting in a broader sense that all the fringe benefits ought to have a FICA tax?

Mr. O'BRIEN. Well, I'm not suggesting that right now. What I am suggesting is if that is—I don't think it is fair to single out just one at this point. It is the newest and perhaps the most visible benefit right now. But it also is something that many people are looking to as relief from social security to the extent that you can encourage your employee's to save under one of these arrangements. So I think that it is somewhat inconsistent also with what we are trying to do.

The CHAIRMAN. Well, I'm not certain I disagree with that. We have looked at—at least at the staff level—what we might do in the fringe benefit area as far as payroll taxes are concerned. It represents a substantial amount of revenue if, in fact, there was a tax imposed.

How much short-term savings do we pick up in section 305? Apparently none.

Mr. O'BRIEN. What I saw was the statement in the social security reform package writeup that suggested that it was too early. What the Senators were worried about were potential leakages. So right now there is no dollar figure on it.

The CHAIRMAN. We thank you very much. I am certain we will be working with both of you as we start the markup of this legislation. We appreciate your excellent statements.

Thank you.

Mr. KEATING. Thank you.

Mr. O'BRIEN. Thank you.

The CHAIRMAN. Next we will hear from Mr. Leon Shull, national director of the Americans for Democratic Action.

STATEMENT OF LEON SHULL, NATIONAL DIRECTOR, AMERICANS FOR DEMOCRATIC ACTION, WASHINGTON, D.C.

The CHAIRMAN. Mr. Shull, your entire statement will be made a part of the record. You may summarize your statement for the highlights and to persuade us in any way you can.

Mr. SHULL. All right, Mr. Chairman. I would be glad to do that.

I just would like to take a couple of pages out of this, which really are the guts of what we want to talk about, and leave the rest of it for the record.

The Chairman. Sure.

[The prepared statement of Mr. Shull follows:]

TESTIMONY OF
LEON SHULL
NATIONAL DIRECTOR
AMERICANS FOR DEMOCRATIC ACTION
BEFORE THE
COMMITTEE ON FINANCE
U.S. SENATE
February 22, 1983

I want to thank the Chairman of the Finance Committee for giving me this opportunity to speak on Social Security on behalf of Americans for Democratic Action.

Americans for Democratic Action (ADA) is a national public-policy organization with members in every state of the union.

Social Security is the best anti-poverty program that this nation has ever had. It helps our senior citizens pay for otherwise unattainable health care, it supports our disabled persons, and it maintains the majority of our senior families, widowers, and widows, so that they are not forced to rely on welfare or live in abject poverty. Franklin D. Roosevelt summed up Social Security's founding vision at the signing of the Act:

> "We can never insure 100 percent of the population against 100 percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age."

As we can all see, that vision is a reality. The system has worked and worked well. Two-thirds of all people over age 65 depend on it for one-half of their livelihood, while one out of every four of our aged persons receives 90 percent of his or her income from Social Security. Social Security has largely eliminated the horror of a poverty-stricken old-age for millions of Americans.

In considering proposals to rectify problems in the system, it is important that we remember the founding vision and the original goals articulated by President Roosevelt and by Frances Perkins, the able Secretary of Labor in Roosevelt's cabinet. Some critics have proposed solutions, targeted to short-term economic difficulties, that threaten to undermine the very principles and purposes of Social Security. Therefore we commend the National Commission for underscoring the fundamental strength of the Social Security Trust and the essential place it holds in our society. Those alarmists who are knelling a death toll for the system because of its entirely reparable financial problems in fact sabotage efforts to arrive at fair and equitable revisions.

We, of course, recognize that there are serious -- though by no means insurmountable -- economic difficulties. The short-term financing problems have been brought on by the current economic recession, a period of prolonged inflation, continuing high unemployment, and an historically temporary situation in which the percentage increase in prices has been greater than the increase in wages. Hence, in the short as well as in the long run, a healthy economy with a working labor force is the essential key to Social Security's financial stability.

Unfortunately, because of economic variables and other unpredictable developments, we simply cannot depend on a growth economy. We must make certain adjustments in the Social Security Trust in order to guarantee its viability. The task facing us is to fairly implement revisions which will meet any immediate or long-term financial shortfalls. These modifications must rebuild present and future retirees' confidence in the system, and must not compromise or violate the original principles on which Social Security was founded. This means that the burden of meeting the financial problems should not be a burden on OASI and DI recipients, who are in no way responsible for the situation. This nation has a social contract. It must not be abridged.

The method which meets all these requirements, the method which is the most economically sound and the most equitable, is to partially finance Social Security from general revenue funds. We believe the use of general revenues is a better solution than the cancellation of six months of cost-of-living adjustments. We strongly urge this Committee to consider this proposal.

Using general revenues would ensure that all beneficiaries would receive their benefits, without burdening workers with higher taxes. Such a move would also take into account the fact that many Social Security benefits are based on present need instead of past wage contributions. The cost of benefits paid to the first generation of retirees, to workers' children or widows, and to low wage earners all exceed the value of their respective contributions. General revenue financing would also help restore confidence in the system because current workers and their families would be assured that funds to pay their benefits will be available when needed. Over the years, general revenue financing has been supported by a number of advisory councils and independent groups. In fact, Social Security originally was envisioned as operating with money from three sources: one-third coming from workers, one-third from employers, and one-third from general revenues.

Until this sensible and just system of financing is implemented, ADA urges, at a minimum, that the Social Security Trust be given authority to borrow from general revenues as a fail-safe mechanism whenever its reserves drop.

If general revenue financing is not instituted and if an economic downturn occurs, taxpayers indirectly will pay for care of the elderly out of general revenues anyway, in the form of increased poverty assistance. This is certain to happen if there is any reduction in the cost-of-living adjustment. We strongly oppose what has been labelled a six-month delay in the COLA. This proposal is actually a cancellation of benefits and will cause recipients to suffer a real loss of income. Since many beneficiaries depend on the COLA as their only protection against the ravages of inflation, a cancellation will decrease their purchasing power when they are most vulnerable. Lowest income groups will be the hardest hit. Basing COLA on wages would indeed help stabilize the system against short-term economic fluctuations, but it also would leave beneficiaries without protection whenever prices outstrip wages.

Proponents of a cancellation argue that it is only a matter of a few dollars and that the burden of sacrifice must be shared by everyone. But is forcing 1.2 million older Americans into poverty just and fair burden sharing?

Because that is what will happen if the COLA is delayed. According to a study by the American Association of Retired Persons, ten percent of those over 65 live just above the poverty line; a COLA delay would push them into desperate circumstances.

Still others argue that the welfare programs of Social Security, such as Supplemental Security Income (SSI), would protect these people. But studies have shown that many senior citizens and many disabled persons unwilling to apply for these benefits or take the required asset tests, thus preventing many of the most needy from participating. And why _should_ senior citizens be forced onto welfare programs with the loss of dignity that surely follows? This point is especially important because a substantial group of upper-income leaders would like to turn Social Security into a welfare program. _This disgraceful proposal must be rejected_. While a $40-billion general fund contribution is not a great burden as measured against our GNP over a six-year period, it would be an enormous human hardship if it were cut from Social Security benefits.

Moreover, a delay in the COLA would have a devastating impact on women over age 65, because they are the least financially secure of all our citizens. According to the Women's Equity Action League, 60 percent of elderly single women depend solely on Social Security for their income, while single women over age 65 make up _85 percent_ of all people living below the poverty line. In fact, the average Social Security benefit for elderly widows is just $351.00 a month -- almost $15 _below_ the poverty line. Measures must be taken to protect women against these desperate economic conditions. Therefore, ADA urges Congress to redress the inequities suffered by women who receive Social Security. We applaud the Commission's four recommendations that would provide better coverage for certain groups of widows, divorced women, and disabled women. Yet these revisions do not go far enough: ADA strongly supports legislation which will implement the concept of earnings sharing. As Robert Ball has testified, "Earnings sharing is a recognition of marriage as an economic partnership, with equal respect given to the division of labor chosen by each couple. It accords the right of each individual to a retirement income based on half the total retirement credits earned by the couple during their marriage." This concept accounts for the economic contributions of women who either remain in the home or who have left the labor force for homemaking or child-rearing. Under current law, time spent in the home does not earn any Social Security coverage. Earnings sharing would guarantee women some degree of equitable protection when they retire.

ADA rejects decreasing the level of primary benefits by any reduction in the replacement rate or in the "bend points". Such a step would create great hardship for many beneficiaries. The replacement rate now averages about 42 percent or approximately $417 a month for a retired worker -- certainly not an exorbitant sum. Moreover, Social Security provides the largest single source of income for 70 percent of the entire retired population, and for 100 percent of retirees with incomes below the top 20 percent. Hence, cutting the rate would hurt the lowest income groups the most.

ADA also favors the Commission's recommendation to raise the retirement credit from 3 percent to 8 percent for workers who at age 65 postpone retirement and continue working. This proposal encourages those who are able to work to do so, without penalizing those persons who either cannot find a job or must retire because of poor health. We reject any plans which raise the age at which full benefits are payable. While this might seem a sensible solution in light of the increasing life span, longevity is not necessarily accompanied by health or an ability to keep working. Fifty-seven percent of U.S. workers now retire early because of poor health. These workers would be forced to postpone retirement or accept reduced benefits. In fact, people may be living longer because they are able to retire earlier. It is also questionable whether employment will be available for older workers. Many are forced out of their jobs by cyclical or structural unemployment, automation, and age discrimination. Raising the age at which full benefits are payable would force these people to retire without full benefits.

ADA supports universal coverage and favors the Commission's proposal to make Social Security apply to all new federal workers, as well as those non-profit employees not now covered. We also support extending coverage to all new state and local employees, and we believe any constitutional difficulties can be overcome. Not only would this move generate new revenues, it also would eliminate the inequitable advantage of government employees who -- having worked for a relatively short time outside government -- receive benefits from two retirement programs. Lower-paid workers and those who have served a substantial amount of time in both governmental and non-governmental jobs would receive improved protection. Coverage could be extended immediately to all new workers and those with less than five years' experience. At the same time, protection of current employees should be ensured by guaranteeing--

- that federal, state and local workers would have the opportunity to review and comment on the proposed changes;
- no reduction in the level of pension benefits for present government workers;
- an opportunity for these workers to improve their retirement systems in the future;
- maintenance of the identity of current public employee retirement systems; and
- no increase in the financial burden on public employees already covered without a commensurate adjustment in benefits.

ADA agrees with the majority of Commission members who believe that Social Security should be removed from the unified federal budget. It is inequitable to combine annual expenditures, on the one hand, and Social Security, which is an ongoing social insurance program separately financed by worker and employer contributions. Social Security protection is not negotiable. It is, therefore, improper to include it in the inherently competitive budget process. Taking it out of the budget would insulate the program from politically motivated budget cutting. It also would help means-tested entitlement programs (like food stamps), which tend to suffer more severe cuts when they are forced to compete with Social Security for limited funds.

At a time when the Administration is cutting so many programs designed to help the poor, it is imperative to maintain Social Security -- a program that keeps so many of the elderly out of poverty. The true dollar cost of the program is measured in the percentage of GNP that we are willing to devote to care for our senior citizens, and currently we are spending just over 5 percent of our $3-trillion GNP. Under the economic forecasts accepted by the National Commission, that figure will remain at between 5 and 6 percent until the year 2050. Rather than question whether we can afford to pay as much for protection of our senior citizens, we should be asking whether we can afford to do any less.

Mr. SHULL. In considering the proposals to rectify problems in the system, it's important that we remember the founding vision and the original goals articulated by President Roosevelt and by Frances Perkins, the able Secretary of Labor in President Roosevelt's cabinet. Some critics have proposed solutions targeted to short-term economic difficulties that threaten to undermine the very principles and purposes of social security. Therefore, we commend the National Commission for underscoring the fundamental strength of the social security trust, and the essential place it holds in our society.

Those alarmists who are knelling a death toll for the system because of its entirely repairable financial problems, in fact sabotage efforts to arrive at a fair and equitable revision.

We, of course, recognize that there are serious, though by no means insurmountable, economic difficulties. The short-term financing problems have been brought on by the current economic recession, a period of prolonged inflation, continuing high unemployment and an historically temporary situation in which the percentage increase in prices has been greater than the increase in wages.

Hence, in the short as well as in the long run, a healthy economy with a working labor force is the essential key to social security's financial stability. Unfortunately, because of the economic variables and other unpredictable developments, we simply cannot depend on a growth economy. We must make certain adjustments in the social security trust in order to guarantee its viability.

The task facing us is to fairly implement revisions which will meet any immediate or long-term financial shortfalls. These modifications must rebuild present and future retirees' confidence in the system, and must not compromise or violate the original principles on which social security was founded. This means that the burden of meeting financial problems should not be a burden on OASI and DI recipients who are in no way responsible for the situation. This Nation has a social contract that must not be abridged.

The method which meets all these requirements, the method which is the most economically sound and the most equitable, is to partially finance social security from general revenue funds. We believe the use of general revenues is a better solution than the cancellation of 6 months of cost of living adjustments.

We strongly urge this committee to consider this proposal. Using general revenues would insure that all beneficiaries would receive their benefits without burdening workers with higher taxes. Such a move would also take into account the fact that many social security benefits are based on present need instead of past wage contributions. The cost of benefits paid to the first generation of retirees, to workers' children or their widows, and to low-wage earners all exceed the value of their respective contributions.

General revenue financing would also help restore confidence in the system because current workers and their families would be assured that funds to pay their benefits would be available when needed. Over the years, general revenue financing has been supported by a number of advisory councils and independent groups. Indeed, social security originally was envisioned as operating with money from three sources—one-third coming from workers, one-third from employers, and one-third from general revenues.

Until this sensible and just system of financing is implemented, ADA urges at a minimum, that the social security trust be given the authority to borrow from general revenues as a fail-safe mechanism whenever its reserves drop.

If general revenue financing is not instituted and if an economic downturn occurs, taxpayers indirectly will pay for the care of elderly out of general revenues anyway in the form of increased poverty assistance. This is certain to happen if there is any reduction in the cost of living adjustment.

We strongly oppose what has been labeled a 6-month delay in the COLA. This proposal is actually a cancellation of benefits, and will cause recipients to suffer a real loss of income.

Since many beneficiaries depend on the COLA as their only protection against the ravages of inflation, a cancellation will decrease their purchasing power when they are most vulnerable. Lowest income groups will be the hardest hit. Basing COLA's on wages would, indeed, help stabilize the system against short-term economic fluctuations, but it would also leave beneficiaries without protection whenever prices outstrip wages.

Proponents of the cancellation argue that it is only a matter of a few dollars, and that the burden of sacrifice must be shared by everyone. But is forcing 1.2 million older Americans into poverty just and fair burden sharing? Because that is what will happen if COLA is delayed.

According to a study by the American Association of Retired Persons, 10 percent of those over 65 live just above the poverty line. A COLA delay might push them into desperate circumstances.

Still others argue that the welfare programs of social security, such as SSI, would protect these people. Studies have shown that many senior citizens and disabled persons are unwilling to apply for these benefits or to take the required asset tests, thus preventing many of the most needy from participating.

And why should senior citizens be forced onto welfare programs with the loss of dignity that surely follows? This point is especially important because a substantial group of upper income leaders would like to turn social security into a welfare program. This disgraceful proposal must be rejected.

While a $40 billion general fund contribution is not a great burden as measured against our GNP over a 6-year period, it would be an enormous human hardship if it were cut from social security benefits.

Moreover, a delay in the COLA would have a devastating impact on women over age 65 because they are the least financially secure of all our citizens. According to the Woman's Equity Action League, 60 percent of elderly single women depend solely on social security for their income, while single women over age 65 make up 85 percent of all people living below the poverty line. In fact, the average social security benefit for elderly widows is just $351 a month, almost $15 below the poverty line.

Measures must be taken to protect women against these desperate economic conditions. Therefore, ADA urges Congress to redress the inequities suffered by women who receive social security.

We applaud the Commission's four recommendations that would provide better coverage for certain groups of widows, divorced women, and disabled women. Yet these revisions do not go far enough. ADA strongly supports legislation which would implement the concept of earnings sharing. As Robert Ball has testified,

> Earnings sharing is a recognition of marriage as an economic partnership with equal respect given to the division of labor by each couple. It accords the right of each individual to a retirement income based on half the total retirement credits earned by the couple during their marriage.

This concept accounts for the economic contributions of women who either remain in the home or who have left the labor force for homemaking or child rearing. Under current law, time spent in the home does not earn any social security coverage. Earnings sharing would guarantee women some degree of equitable protection when they retire.

Thank you.

The CHAIRMAN. Thank you, Mr. Shull.

Senator Moynihan.

Senator MOYNIHAN. I would like to express my appreciation to my old friend Leon Shull for his accurately asserted and generous approach to these matters. We very much share your concerns about earnings sharing. We didn't feel that we had the mandate or the resources on hand to go much further than we did at the time. But we do indicate in the report that that subject is next after medicare. But you are absolutely right to call it to our attention. And I am surprised how it remained through this whole day's hearing for ADA to come along and do that. And thank you for your good comments.

The CHAIRMAN. Well, I have no questions, but again, as a member of the Commission. as we both were, we understand some of the real problems. I hope you understand some of the problems we faced in trying to hammer out a compromise. It may not be perfect. It is not perfect, and much less than that, I assume. But we think it is a package that may hold together because the parts are so weak.

Mr. SHULL. May I just say, then, Senator, that we think the Commission did a good job and we were especially pleased that the Commission protected the fundamental principles of social security. We hope in your deliberations you might consider using general funds. You are already doing it indirectly. And perhaps that is the best way to go. But we would hope that you would give some attention to a relatively small contribution from general revenues. We were thinking in terms of $40 billion over a 6-year period. I know that seems like a lot of money. I have been reminded of that many times.

But still in the total picture it isn't that much. And we commend to your consideration that this is a sensible way to deal with some of the shortfall.

Thank you for your time.

The CHAIRMAN. Thank you.

Our final witness for the day is Ms. Carolyn Vath from the Kansas State Nurses Association, Topeka, Kans., representing the American Nurses Association headquartered in Kansas City, Mo.

STATEMENT OF CAROLYN K. VATH, R.N., PRESIDENT, KANSAS STATE NURSES ASSOCIATION, TOPEKA, KANS., REPRESENTING THE AMERICAN NURSES ASSOCIATION, KANSAS CITY, MO.

The CHAIRMAN. Ms. Vath.

Ms. VATH. Thank you, Senator Dole.

I am Carolyn Vath, President of the Kansas State Nurses Association. I am representing the American Nurses Association. Accompanying me is Cynthia Ditmar with the staff of ANA's Washington office.

We thank you for the opportunity to present our views on the problems facing the social security. In the interest of time, I will highlight our written testimony.

The National Commission on Social Security Reform recommended mandatory social security coverage of all nonprofit organizations. For registered nurses and other employees of nonprofit hospitals, the proposal is particularly critical to overcome economic well-being.

We strongly urge that this recommendation be enacted into law, and include those institutions which have already withdrawn with the program. The current nonprofit provision has hit hardest on workers in hospitals. Numerous hospitals have exercised their right to withdraw from the social security program during the past several years, leaving many thousands of workers without retirement income protection. In 1982, over 300 hospitals have notified IRS of their intent to withdraw, while hundreds of others have the matter under serious consideration.

During the past year, the Kansas State Nurses Association mounted a campaign to uncover the identity of hospitals planning to terminate coverage. The information was given to the press. One hospital, Wesley Medical Center in Wichita, applied to withdraw in February 1981, with the termination of the program set for April 1983. Most of the 3,200 employees were unaware of the hospital's intent to withdraw until a member of KSNA obtained the information from the Social Security Administration last September. Wesley officials now indicate the hospital has dropped its plan to withdraw.

In addition, we are concerned that the State is considering ending social security for all of its 39,000 State employees. This would affect all RN's employed by the State Health Department and universities which include a university hospital and four university faculties.

Nowhere is the need for social security greater than among hospital workers. Over 80 percent of hospital workers are women. Hospital workers earn an average of only 88 percent of the average of all workers. Hospital workers have a high degree of job mobility.

It has been a tragedy for many thousands of workers in nonprofit hospitals that their employers, since their existence depends on the social security system, have been withdrawing from the social security system in ever increasing numbers. For hospital workers with relatively low wages, the weighted benefit formula for which no comparability exists in employer pensions has kept many out of poverty after their retirement.

Because of their relatively high degree of job mobility, the portability of social security coverage has assured many of at least a minimum level of retirement income. As a result of this mobility, it is unlikely that many hospital workers would qualify for sufficient, if any, income from their employee pensions.

The National Commission offered four proposals which would primarily benefit women—certain groups of widows, divorced women, and disabled women. All the proposals are necessary to improve the well-being of our aged population. Aged widows compose over two-thirds of all elderly households with incomes below the poverty line. Many have had only marginal attachment to the labor force, and therefore have had to rely on whatever benefits became available through their wage earning spouse. The National Commission's four proposals will do much to help the most vulnerable of the elderly women who have been disadvantaged under the retirement income program.

In addition to these proposals, we urge you to explore other options listed in our testimony which would improve the adequacy and equity of treatment of women under the social security system. While such proposals have received considerable attention in the recent past, they have been pushed back in the legislative agenda because of the larger problem of financing the current social security system. It makes little sense to address the problems of social security financing, however, without considering the structural adjustments necessary to the system.

We thank the committee for this opportunity to express our views.

[The prepared statement of Ms. Vath follows:]

TESTIMONY OF THE AMERICAN NURSES' ASSOCIATION PRESENTED BY CAROLYN K. VATH, R.N., PRESIDENT, KANSAS STATE NURSES' ASSOCIATION

The American Nurses' Association is a professional association and labor organization representing the nation's registered nurses. We are pleased to have this opportunity to present our views on the problems facing the Social Security System.

The American Nurses' Association has long been a strong supporter of the Social Security System as the foundation of income protection for the nation's aged and disabled and their families. We are gravely concerned with the financial crisis facing the Social Security System which is threatening the vital role that the system plays in providing income to our nation's most vulnerable populations. Because of the recent combination of high unemployment and high inflation, expenditures from the Old Age and Survivors Insurance Fund are exceeding revenues at such a rate that, without any changes in the current law, the fund will be unable to meet benefit payments on time by the middle of this year. In the long term, Social Security is again expected to encounter severe financial difficulties, because projected demographic and employment trends indicate that the ratio of retired people to working people will drastically increase shortly after the turn of the century. It is clear that the nation can no longer afford a delay in finding solutions to improve the solvency of the Social Security System. We urge this Congress to act swiftly to resolve these financial problems of our nation's most important program.

Improving the solvency of the Social Security System involves difficult and painful, but necessary choices. We feel strongly that any solutions to the financing problems of the Social Security System must be made within a general framework that retains the essential characteristics of the system as a social insurance program for which all members of society bear responsibility.

It has always been ANA's goal to ensure that the aged and disabled populations are able to enjoy a decent, dignified and healthful life and are free from enormous financial burdens that once beset these populations. At the same time, we represent a membership of working people in the low to moderate income range who are unable to assume an enormous financial burden for the solvency of the Social Security System, but who are willing to shoulder their fair share of the responsibility.

We believe that the avoidance of a large direct infusion of general revenues as a solution to the financing problems is most appropriate at this time. One of the system's major strengths and source of popular support lies in the fact that it has been self-contained insurance program. It is extremely important to retain this characteristic of Social Security. Particularly at this time, when so many sorely needed health programs have been cut or curtailed and so many more are being threatened, we could not support a direct infusion of general revenues into the system.

We believe that the Social Security System must recognize the need for all workers to be included in the program and that the system provides enormous social benefits for which all members of society should bear a responsibility.

In the remainder of our remarks we would like to focus on the National Commission on Social Security Reform proposals to extend Social Security coverage and to improve adequacy of benefits for women - two issues of immediate importance to registered nurses.

EXTENSION OF SOCIAL SECURITY COVERAGE

A. NON-PROFIT ORGANIZATIONS

The National Commission on Social Security Reform recommended mandatory Social Security coverage of all non-profit organizations. For registered nurses and other employees of non-profit hospitals, this proposal is particularly crucial to overall economic well being. We strongly urge this Congress to enact this proposal.

As the nation's largest group of health professionals, registered nurses are well acquainted with the potentially devastating impact of the lack of Social Security coverage. The provision exempting religious, charitable and non-profit institutions from mandatory Social Security coverage has hit hardest on workers in hospitals. Numerous hospitals have exercised their right to withdraw from the Social Security program during the past several years, leaving many thousands of workers without retirement income protection. In late 1980, a significant upward trend began in the number of hospitals filing advance notice of withdrawal. As of November, 1982, about 300 hospitals have notified IRS of their intent to withdraw, while hundreds of others have the matter under serious consideration.

The possible advantage to hospitals of terminating coverage is obvious; it is a way to save money. A study by the House Ways and Means Committee found that the cost of Social Security was a principle reason for defection from the program. However, the cost to the hospital workers in terms of loss of income protection and the cost of the Social Security System, itself, provide much more compelling reasons to require all religious, charitable and non-profit hospitals to remain in the system.

Although some hospitals have provided alternative retirement programs, such action is not required by law. Furthermore, employers cannot offer plans duplicating the benefits of Social Security without tremendous cost. Hospitals are not required to inform their employees of the decision to opt out, and employees have no legal right to participate in the decision. Once coverage is terminated it cannot be reinstated, although the notice may be revoked before the effective date of withdrawal.

During deliberations last summer by the House-Senate conferees over the Tax Equity and Fiscal Responsibility Act of 1982, we were concerned that the new fiscal restraints which were being placed on hospitals would result in additional pressures on these hospitals to opt out of the Social Security program. Specifically, we feared that limitations on reimbursement would provide an incentive for hospitals to drop Social Security coverage in order to reduce their costs. Consequently, we suggested a technical amendment which stated that, in determining whether a hospital's costs were within the reimbursement limitations, the costs attributable to mandatory

F.I.C.A. contributions would be disregarded, thus removing an additional incentive to opt out. We appreciate the efforts of the Finance Committee in seeing that this provision was adopted by the conference. However, we believe that this amendment was a temporary measure, and that the option to withdraw from the program must now be eliminated.

The American Nurses' Association believes that it is in the best interest of health care employees, and the country as a whole, for all hospital employees to have mandatory Social Security coverage. Nowhere is the need for Social Security greater than among hospital workers: over 80 percent of hospital workers are women; hospital workers earn on the average only 88 percent of the average of all workers; hospital workers have a high degree of job mobility. It has been a tragedy for many thousands of workers in non-profit hospitals that their employers, whose very existence depends on the Social Security System - i.e. Medicare - have been withdrawing from the Social Security System in ever increasing numbers.

Hospital workers, among the lowest paid in the industry, are those in greatest need of the protection offered by the Social Security System. Because of their relatively low wages, the weighted benefit formula, for which no comparability exists in employer pensions, has kept many low wage earners out of poverty in retirement.

Because of their relatively high degree of job mobility, the portability of Social Security coverage has assured many of at least minimum level of retirement income. Because of this mobility, it is unlikely that many hospital workers would qualify for sufficient, if any, income from their employer pension.

Moreover, Social Security offers important protection against the loss of income due to long-term disability. It offers protection to dependents and survivors and it has extremely important health insurance benefits. All of these crucial components of economic well being, particularly to a mobile, low and moderate income population which is characteristic of the Social Security System, which cannot be duplicated in private plans, were designed especially to protect these groups.

The American Nurses' Association has historically remained a staunch advocate for a comprehensive Social Security program. Provisions which permit various governmental and non-profit private sector employees to withdraw from the program threaten the welfare of hundreds of thousands of employees and retirees. This threat is particularly significant for registered nurses because the majority of these professionals work in non-profit private sector health care institutions.

The National Commission on Social Security Reform has recommended that all non-profit employees be provided with mandatory Social Security coverage. We applaud the findings of the Commission, and ask that the Committee include in its legislative proposal a provision mandating all non-profit hospitals, including those which have already withdrawn from the program, to provide Social Security for all employees.

B. THE FEDERAL CIVIL SERVICE

One of the Commission's more controversial proposals is the inclusion of Federal Civil Service employees in the Social Security System. While mandatory coverage of federal employees is consistent with the objectives of the Social Security System as a universal social program, we believe strongly that this option, by itself cannot be implemented without a much broader consideration of the concerns and rights of federal civil service employees. Particularly at this time, when the wages of federal employees are being frozen and when other benefits, such as health insurance, have been shrinking or requiring great increases in workers' out-of-pocket-costs, there must be assurance that the rights of federal workers will not be eroded in the efforts to improve the solvency of the Social Security System.

We, therefore, feel that this option cannot be adequately addressed in isolation without the development of a complete retirement income package for federal employees. There must be consideration of the effect of Social Security coverage on a separate federal pension system and the resulting costs and benefits for employees. Because such questions have not been adequately covered, we think that it would be inappropriate and unfair to federal employees to mandate Social Security coverage without coinciding mandate to protect their future retirement income security.

C. STATE AND LOCAL GOVERNMENTS

The National Commission also recommended that those state and local governments currently participating in the Social Security System not be permitted to terminate coverage in the future. We agree with this only as a temporary measure and feel that, in addition, this option should include incentives for state and local governments not currently covered to enter the system. Such an incentive could be similar to the technical amendment in Medicare, previously mentioned, eliminating financial incentives for non-profit hospitals to withdraw from Social Security.

While the issue of coverage of state and local employees is complex, we believe that all state and local employees should be included in the Social Security System. Undoubtedly, there will be constitutional challenges to a mandatory inclusion of state and local governments within the Social Security System. Nevertheless, we feel that failure to include state and local governments in the Social Security System in anticipation of constitutional challenges is unwise. The only fair and equitable way to resolve the very complex constitutional issue is to leave it to the courts to deliberate.

SOCIAL SECURITY ISSUES OF CONCERN TO WOMEN

The National Commission offered four proposals, which would primarily benefit women, affecting certain groups of widows, divorced women, and disabled women. The Commission recommended that Social Security benefits continue for surviving spouses who remarry; that divorced spouses be eligible for spouse benefits at age 62, whether or not the former spouse is eligible or has claimed benefits; that survivor benefits be indexed to the increase in wages from the time the worker dies to the time the survivor is eligible to claim them; and the benefit rate be increased for disabled widows and widowers age 50-59.

All of the proposals are necessary to improve the well-being of our aged population. Aged widows compose two-thirds of all elderly households with income below the poverty line. Many have had only marginal attachment to the labor force and therefore, have had to rely on whatever benefits became available through the wage earning spouse. These four proposals will do much to help the most vulnerable of the elderly, widows, including those divorced and disabled, who have been most disadvantaged under the retirement income programs.

In addition to these proposals, we urge you to explore other options to improve the adequacy and equity of the treatment of women under the Social Security System. As an organization representing predominantly women professionals, the American Nurses' Association is increasingly concerned about the policies which affect the economic well-being of women.

Social Security is an extremely important source of income for aged women, many of whom receive any other retirement benefits. Nevertheless, there are some inequities and inadequacies in the treatment of women under the program.

When the Social Security System was enacted most women were full-time homemakers, or worked part-time or intermittently outside of the home. Although women's economic and social status has changed remarkably since that time, the Social Security System has not kept pace.

The system is not inherently discriminatory, in the sense of making sex-based distinctions for the purpose of calculating contributions or benefits. Rather, certain aspects of the system have a disparate impact on men and women. Because women are more likely to be out of the labor force to raise children, more often lower wage earners, and more likely to be widowed, they are more often disadvantaged under the Social Security System.

A. BENEFIT AVERAGING PERIOD

Social Security benefits are calculated on the basis of earnings over a worklife. For people who reach 62 in or after 1991, the benefits will be calculated on the basis of 35 years of earnings. The number of years under 35, which are spent out of the labor force or non-covered employment, will be averaged in as zero earnings in the final benefit calculation.

We believe that the Social Security System should not penalize parents, primarily women, who temporarily leave the labor force for family responsibilities. We believe, as we feel all society believes, that caring for one's own young is of sufficient importance that people should not be adversely affected under the Social Security System. We urge Congress to explore options and enact legislation which will enable parents who take time out of the labor force for family responsibilities to not be penalized in the calculation of Social Security benefits. Specifically, we believe that the Social Security System should allow child care "drop-out years".

B. INEQUITIES BETWEEN ONE-EARNER and TWO-EARNER COUPLES

As more and more women enter the paid labor force, another inequity under the current system has become controversial. In two-earner families, both spouses contribute to the Social Security System, and the lower wage earner may receive either the spouse benefit, or a worker benefit, which ever is higher. In a one-earner family the non-working spouse is automatically entitled to the spouse benefit.

Thus, two-earner couples may contribute more to the system but not receive proportionately more in benefits. In the case where two-earner couples together earn the same as the one-earner family, they would actually receive lower total benefits even though they had contributed more.

We believe that some structural adjustments in the Social Security System are necessary to improve the equity between one and two-earner couples. One prominent proposal, "earnings sharing" would help alleviate existing inequities. Under the earnings sharing proposal, the combined earnings of a husband and wife during their marriage would be divided equally between them for the purpose of determining eligibility for, and the amount of old age and disability benefits. This change would make the treatment of Social Security similar to the treatment of income and other assets obtained during marriage in community property states. This would result in equal benefits to both spouses during the time they were married.

The earnings sharing approach to calculating Social Security benefits is a comprehensive approach to eliminating or reducing many of the inequities and inadequacies under the current system. It is based on the idea of marriage as an economic partnership. A major group of beneficiaries would be divorced women, particularly those with no or low earnings during marriage. Earnings sharing would also improve equity (although would not eliminate the inequities) between two-earner and one-earner couples.

The proposals would help eliminate many of the problems faced by women under the Social Security System. While they have received considerable attention in the recent past, they have been pushed back in the legislative agenda because of the larger problem of financing the current Social Security System. It makes little sense to address the problems of Social Security financing, however, without considering the structural adjustments necessary to the system. It is almost universally recognized that the Social Security System could be changed to treat women more fairly and adequately. It also seems universally apparent that some adjustments of the system will have to be made in the near future to reach this goal. To discuss the future financing of the system without incorporating the necessary reforms makes little sense since the financing and the benefits are so inextricably interrelated.

CONCLUSION

We wish to commend the National Commission on Social Security Reform for its effort in creating a bi-partisan consensus on many of the issues facing Social Security. We urge this Congress to quickly resolve the problems facing our nation's most important social program.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. I would like to thank Ms. Vath and the American Nurses Association. It is a shocking thing that a major nonprofit hospital would apply to take 3,200 employees out of the social security system and not tell them.

Ms. VATH. We agree.

Senator MOYNIHAN. Come on, I mean what kind of leadership is that? And I take it that you are well satisfied with our proposal as far as it goes?

Ms. VATH. Are you talking about the FICA one where you——

Senator MOYNIHAN. Well, with respect to including the nonprofit sector.

Ms. VATH. Oh, absolutely. Yes.

Senator MOYNIHAN. And you want that done?

Ms. VATH. Yes.

Senator MOYNIHAN. And you also are aware that there is a long agenda of legitimate questions regarding female employees that has yet to be addressed, and that we take note of but honestly just didn't have the resources in terms of money to deal with. But we wanted to make clear that we know they are there and they have to be dealt with.

Ms. VATH. Yes.

Senator MOYNIHAN. Thank you very much for a very good testimony.

Ms. VATH. Thank you.

The CHAIRMAN. Thank you, Senator Moynihan.

In the tax bill we passed in 1982—it is referred to as TEFRA—we added an amendment which was supported by your organization to discourage hospitals from opting out of social security. Has that been of any help?

Ms. VATH. It has been of help. It is slowing down the hospitals that are opting out, and we think that is a good temporary measure. But we really would seek to include them all as not being able to opt out in the future.

The CHAIRMAN. If hospitals do opt out, are the pension plans offered inferior?

Ms. VATH. I know of no hospital plan that can meet what social security does, especially in portability and in disability and there are several others. But those are the two major ones, at least from my point of view, and from many nurses. And we do thank your committee for the work that you did to stop the opting out at this point in time.

The CHAIRMAN. I think if we can possibly do it—although I haven't discussed this with Senator Moynihan—we may want to address some of the other issues raised by the Commission that affect women, perhaps effective in 1990. We can't do it in the short term because of the financing problem, but there may be some way a little later. The staff is working on it now. Most of the staff happen to be women so you are in pretty good shape.

We appreciated your testimony and are happy to have you here. Do you have anything to add?

Ms. VATH. No.

The CHAIRMAN. Well, thank you very much.

We then stand in recess until 9:30 tomorrow morning. And we will have hearings tomorrow morning and tomorrow afternoon and again on Thursday. As I said earlier today, if anyone feels compelled to testify we would be happy to try to accommodate your wish. All statements that are filed will be carefully reviewed by staff and the highlights will be reviewed by the members. So if you would like, you may just submit a statement in writing and it will be made a part of the record.

Thank you.

[Whereupon, at 2:30 p.m., the hearing was recessed, to reconvene at 9:30 a.m., Wednesday, February 23, 1983.]

NATIONAL COMMISSION ON SOCIAL SECURITY REFORM RECOMMENDATIONS

WEDNESDAY, FEBRUARY 23, 1983

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met, pursuant to notice, at 9:36 a.m., in room SD-215, Dirksen Senate Office Building, the Hon. Robert J. Dole (chairman) presiding.

Present: Senators Dole, Packwood, Heinz, Durenberger, Symms, Moynihan, and Bradley.

Also present: Senators Boschwitz and Lugar.

[The factsheet on the civil service retirement system follows:]

MEMORANDUM February 18, 1983

FROM: Richard S. Foster SNS
Office of the Actuary

SUBJECT: Estimated Operations of the OASDI and HI Trust Funds Under the Bipartisan Agreement of the National Commission on Social Security Reform, and Under the Agreement Plus Selected Additional Proposals--1983 Alternative II-B Assumptions

Table 1, attached, shows OASDI and HI Trust Fund projections under an extended version of the National Commission's Bipartisan Agreement. This version would add the following proposals to the National Commission recommendations:

1. The HI tax rate for self-employed persons would be increased to the combined employer-employee rate in 1984 and later, similar to the National Commission proposal for the OASDI self-employment tax rate.
2. The method of reimbursing the HI Trust Fund for military service wage credits would be changed in the same manner as recommended by the National Commission for the OASDI program.
3. The temporary limitation on hospital cost reimbursement enacted under P.L. 97-248 (TEFRA) would be extended beyond 1985. It should be noted that the prospective reimbursement proposal in the 1984 Budget is not equivalent to the extension described above, and would not necessarily produce the same HI cost reductions.
4. A portion of the OASDI taxes for a particular month would be transferred to the trust funds at the beginning of the month if needed for the timely payment of benefits. (Under present law, such taxes are transferred on a daily basis as employer tax withholdings and self-employment taxes are received by IRS.)

Similar projections are shown in table 2 under the same package of proposals, but excluding the extension of the limitation on hospital cost reimbursement described above (item 3). Table 3 shows estimated trust fund operations under the National Commission Agreement without any modifications. Two of the recommendations (coverage of nonprofit employees and prohibition of termination by State and local government employees) would affect the HI program; the HI projections in table 3 include the effects of these provisions. All of the projections shown in this memorandum are based on the alternative II-B set of assumptions as developed for use in the 1983 Trustees Report. The HI Trust Fund estimates were provided by the Office of Financial and Actuarial Analysis in the Health Care Financing Administration.

Under this set of assumptions, the OASDI program would be able to pay benefits on time throughout the short-range projection period if the National Commission's recommendations are enacted. It would not be necessary to invoke the supplementary proposal to advance the transfer of OASDI taxes. As a result, the OASDI trust fund operations shown in tables 1-3 are basically similar to each other and differ only with respect to the repayment of loans from the HI Trust Fund, as described in the table notes. It is important to note, however, that OASDI assets would remain at very low levels (relative to annual expenditures) through about 1988. If future economic growth were somewhat slower on average than the moderate but steady growth rates assumed in alternative II-B, the National Commission recommendations would be insufficient to prevent depletion of the OASDI Trust Funds and the advance transfer of taxes would be necessary. Projections under alternative III will be available shortly and will illustrate this situation more clearly.

Under alternative II-B, if the OASDI lump-sum reimbursement for military service wage credits and unnegotiated checks were provided prior to July 1, 1983, then it would not be necessary for the OASI Trust Fund to borrow further amounts from the HI Trust Fund. In addition, the $12.4 billion borrowed in 1982 could be repaid during about 1986-88. Despite this repayment, however, and even with the additional HI proposals described above, the HI Trust Fund would be depleted no later than 1990 under this set of assumptions. Depletion would occur in 1988 under the National Commission package alone. As indicated by the combined operations of the OASDI and HI Trust Funds in tables 1-3, under any of the three sets of proposals total program income and assets would be sufficient to cover total program expenditures based on this set of assumptions; however, no provision for interfund loans from OASDI to HI is included in the proposals. And again, the margin for safety would be quite slim, indicating that use of the advance tax transfer proposal included in the first two packages might be necessary.

The advance tax transfer proposal is designed to help meet the needs of OASDI's unique cash flow situation. This situation arises because virtually all OASDI benefits are paid at the beginning of a month whereas tax income is received more-or-less uniformly throughout the month. The proposal has been termed "normalized tax transfers" and would operate by appropriating some or all of the full month's tax income to the OASDI Trust Funds at the beginning of the month, rather than on a daily basis during the month as employer tax withholdings and quarterly self-employment tax payments are received. The specific portion appropriated would depend on the amount required to pay benefits on time.

It is not clear at this time whether the additional interest income earned by the trust funds as a result of the advanced transfer of taxes would be returned to the general fund or kept by the trust funds. If the general fund is reimbursed for the loss in interest it would incur as a result of the proposal, then the proposal would be equivalent to general revenue borrowing with an automatic repayment schedule and a limitation on the total amount that could be borrowed in a particular month. If interest is not paid to the general fund on the advanced amounts, the proposal would be equivalent to a small general revenue subsidy. For purposes of showing estimates in this memorandum, it is assumed that interest on the advanced taxes would be paid back to the general fund. The normalized tax transfer proposal would apply only to the OASI and DI Trust Funds.

As indicated above, under the alternative II-B assumptions the National Commission recommendations would be adequate to prevent the depletion of the OASDI Trust Funds without the need to advance the tax transfers. For illustrative purposes, however, table 4 shows OASDI and OASDHI assets as a percentage of annual expenditures with a maximum application of the advance tax transfer proposal. The "maximum version" estimates reflect the additional assets that would result from appropriating 100 percent of each month's taxes at the beginning of the month, not just the portion that might be required for timely benefit payment. As indicated in table 4, full application of the proposal would significantly increase the assets available for the payment of benefits at the beginning of the month. At the end of the month, of course, the asset level would be the same with or without the proposal.

In conclusion, the National Commission Agreement would substantially improve the financial condition of the OASDI program, particularly in conjunction with the advance tax transfer proposal. Under the alternative II-B assumptions, however, the National Commission recommendations alone would not provide a wide margin for safety. The short-range financial status of the HI program would be substantially improved under the first two packages described above, and somewhat improved under the National Commission Agreement alone. Under alternative II-B, however, none of these packages would prevent the depletion of the HI Trust Fund by the end of this decade.

Richard S Foster

Richard S. Foster, F.S.A.
Acting Deputy Chief Actuary

Attachments: 4

Table 1.--Estimated operations of the OASDI and HI Trust Funds under the National Commission Bipartisan Agreement, with two proposals extended to HI and with extension of the TEFRA hospital reimbursement changes, based on 1983 alternative II-B assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income OASDI	Income HI	Income Total	Outgo OASDI	Outgo HI	Outgo Total
1982	$160.3	$25.6	$185.9	$160.1	$36.2	$196.3
1983	171.2	44.6	215.8	169.3	41.1	210.5
1984	180.1	45.7	225.8	180.5	46.8	227.3
1985	202.6	52.2	254.8	197.4	53.0	250.4
1986	219.0	62.7	281.7	216.3	59.9	276.2
1987	237.3	69.6	306.9	234.5	67.4	301.9
1988	273.3	75.2	348.5	253.5	75.9	329.4
1989	304.7	74.4	379.1	272.9	85.4	358.3
1990	336.7	78.7	415.5	292.7	95.1	387.8
1991	364.8	83.0	447.8	312.3	104.9	417.2
1992	393.9	87.0	480.9	331.7	116.0	447.7

Calendar year	Net increase in funds OASDI	Net increase in funds HI	Net increase in funds Total	Funds at end of year OASDI	Funds at end of year HI	Funds at end of year Total	Assets at beginning of year as a percentage of outgo during year OASDI	Assets at beginning of year as a percentage of outgo during year HI	Assets at beginning of year as a percentage of outgo during year Total
1982	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15%	52%	22%
1983	1.8	3.5	5.4	26.6	11.7	38.3	15	20	16
1984	-.4	-1.1	-1.5	26.2	10.6	36.8	15	25	17
1985	5.2	-.7	4.4	31.4	9.9	41.2	13	20	15
1986	2.7	2.8	5.5	34.0	12.7	46.7	15	16	15
1987	2.8	2.2	5.0	36.8	14.8	51.7	15	19	15
1988	19.8	-.7	19.0	56.6	14.1	70.7	15	20	16
1989	31.8	-11.1	20.7	88.4	3.1	91.5	21	17	20
1990	44.0	-16.3	27.7	132.4	-13.3	119.2	30	3	24
1991	52.5	-21.9	30.6	184.9	-35.2	149.7	42	-13	29
1992	62.1	-29.0	33.1	247.1	-64.2	182.9	56	-30	33

Notes:
1. See text of accompanying memorandum for description of proposal. It is assumed that the lump-sum reimbursement for military service wage credits and unnegotiated checks would be received by July 1, 1983.
2. Income and end-of-year asset figures reflect transfers of assets between the OASI and HI Trust Funds under the interfund borrowing authority provided by P.L. 97-123. These projections assume that of the $12.4 billion borrowed by OASI from HI, $2.5 billion would be repaid in 1986, $4.5 billion in 1987, and $5.4 billion in 1988.
3. Under the package described above, and based on this set of assumptions, the HI Trust Fund would be depleted in 1990. Subsequent HI operations as shown above are theoretical.

Social Security Administration
Office of the Actuary
February 18, 1983

Table 2.--Estimated operations of the OASDI and HI Trust Funds under the National Commission Bipartisan Agreement, with two proposals extended to HI but without extension of the TEFRA hospital reimbusement changes, based on 1983 alternative II-B assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income			Outgo		
	OASDI	HI	Total	OASDI	HI	Total
1982	$160.3	$25.6	$185.9	$160.1	$36.2	$196.3
1983	171.2	44.6	215.8	169.3	41.1	210.5
1984	180.1	45.7	225.8	180.5	46.8	227.3
1985	202.6	52.2	254.8	197.4	53.1	250.6
1986	219.0	62.6	281.6	216.3	61.9	278.3
1987	237.3	69.3	306.6	234.5	71.1	305.5
1988	273.3	74.5	347.8	253.5	81.1	334.6
1989	304.7	73.2	377.9	272.9	92.4	365.3
1990	336.7	76.9	413.7	292.7	104.1	396.8
1991	364.8	80.4	445.2	312.3	116.2	428.5
1992	393.9	83.5	477.3	331.7	129.8	461.5

	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15%	52%	22%
1983	1.8	3.5	5.4	26.6	11.7	38.3	15	20	16
1984	-.4	-1.1	-1.5	26.2	10.6	36.8	15	25	17
1985	5.2	-.9	4.2	31.4	9.7	41.0	13	20	15
1986	2.7	.7	3.3	34.0	10.3	44.4	15	16	15
1987	2.8	-1.7	1.1	36.8	8.6	45.4	15	15	15
1988	19.8	-6.6	13.2	56.6	2.0	58.6	15	11	14
1989	31.8	-19.2	12.6	88.4	-17.2	71.2	21	2	16
1990	44.0	-27.2	16.9	132.4	-44.3	88.1	30	-16	18
1991	52.5	-35.8	16.7	184.9	-80.1	104.8	42	-38	21
1992	62.1	-46.3	15.8	247.1	-126.5	120.6	56	-62	23

Notes:
1. See text of accompanying memorandum for description of proposal. It is assumed that the lump-sum reimbursement for military service wage credits and unnegotiated checks would be received by July 1, 1983.
2. Income and end-of-year asset figures reflect transfers of assets between the OASI and HI Trust Funds under the interfund borrowing authority provided by P.L. 97-123. These projections assume that of the $12.4 billion borrowed by OASI from HI, $2.5 billion would be repaid in 1986, $4.5 billion in 1987, and $5.4 billion in 1988.
3. Under the package described above, and based on this set of assumptions, the HI Trust Fund would be depleted in 1989. Subsequent HI operations as shown above are theoretical.

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Table 3.--Estimated operations of the OASDI and HI Trust Funds under the National Commission Bipartisan Agreement, based on 1983 alternative II-B assumptions, calendar years 1982-92

(Amounts in billions)

Calendar year	Income			Outgo		
	OASDI	HI	Total	OASDI	HI	Total
1982	$160.3	$25.6	$185.9	$160.1	$36.2	$196.3
1983	171.2	41.2	212.4	169.3	41.1	210.5
1984	180.1	45.1	225.2	180.5	46.8	227.3
1985	201.3	52.0	253.2	197.4	53.1	250.6
1986	217.7	62.0	279.7	216.3	61.9	278.3
1987	234.7	69.6	304.4	234.5	71.1	305.5
1988	278.8	66.5	345.3	253.5	81.1	334.6
1989	304.7	70.5	375.2	272.9	92.4	365.3
1990	336.7	73.9	410.6	292.7	104.1	396.8
1991	364.8	77.0	441.8	312.3	116.2	428.5
1992	393.9	79.8	473.7	331.7	129.8	461.5

	Net increase in funds			Funds at end of year			Assets at beginning of year as a percentage of outgo during year		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1982	$0.2	-$10.6	-$10.3	$24.8	$8.2	$32.9	15%	52%	22%
1983	1.8	.1	1.9	26.6	8.2	34.8	15	20	16
1984	-.4	-1.7	-2.2	26.2	6.5	32.7	15	18	15
1985	3.8	-1.2	2.6	30.0	5.3	35.3	13	12	13
1986	1.3	.1	1.4	31.4	5.4	36.7	14	9	13
1987	.3	-1.4	-1.2	31.6	3.9	35.6	13	8	12
1988	25.3	-14.6	10.7	56.9	-10.7	46.2	12	5	11
1989	31.8	-21.9	9.8	88.7	-32.7	56.1	21	-12	13
1990	44.1	-30.2	13.8	132.8	-62.9	69.9	30	-31	14
1991	52.5	-39.2	13.4	185.3	-102.1	83.2	43	-54	16
1992	62.2	-50.0	12.1	247.4	-152.1	95.4	56	-79	18

Notes: 1. See text of accompanying memorandum for description of proposal. It is assumed that the OASDI lump-sum reimbursement for military service wage credits and unnegotiated checks would be received by July 1, 1983.

2. Income and end-of-year asset figures reflect transfers of assets between the OASI and HI Trust Funds under the interfund borrowing authority provided by P.L. 97-123. These projections assume that of the $12.4 billion borrowed by OASI from HI, $1.4 billion would be repaid in 1985, $3.9 billion in 1986, and $7.2 billion in 1987.

3. Under the package described above, and based on this set of assumptions, the HI Trust Fund would be depleted in 1988. Subsequent HI operations as shown above are theoretical.

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Office of the Actuary
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Table 4.--Illustrative OASDI and OASDHI trust fund ratios under three sets of proposals and in conjunction with a maximum application of a proposal to advance OASDI tax transfers, based on 1983 alternative II-B assumptions, calendar years 1983-92

Calendar year	Assets at the beginning of the year, including 100 percent advance OASDI tax transfer, expressed as a percentage of annual expenditures under--		
	National Commission recommendations with extension to HI, and continuation of TEFRA hospital reimbursement limitation	National Commission recommendations with extension to HI, but without continuation of TEFRA hospital reimbursement limitation	National Commission recommendations only
		OASDI	
1983	15%	15%	15%
1984	22	22	22
1985	20	20	20
1986	22	22	21
1987	22	22	21
1988	22	22	20
1989	28	28	29
1990	38	38	38
1991	50	50	50
1992	64	64	64
		OASDI and HI, combined	
1983	16%	16%	16%
1984	22	22	21
1985	20	20	19
1986	21	20	18
1987	21	20	18
1988	22	19	16
1989	26	22	18
1990	30	24	20
1991	35	26	22
1992	39	28	24

Note: See text of accompanying memorandum for a more complete description of the three sets of proposals. Under the first two sets, the advance tax transfer proposal would operate only if needed to enable the timely payment of OASDI benefits. The estimates shown above, for illustrative purposes, indicate the effect of transferring 100 percent of OASDI taxes to the trust funds at the beginning of each month, rather than just the portion needed to pay benefits on time. While the advance tax transfer proposal is not part of the National Commission recommendations, the maximum potential effects of this proposal are shown above in conjunction with their recommendations for comparative purposes.

Social Security Administration
Office of the Actuary
February 18, 1983

Comparison of tax rates under present law with tax rates under the National Commission's Bipartisan Agreement and under the Agreement with extension of the self-employment tax rate increase to HI, 1983-90

Year	Present law			Bipartisan Agreement			Bipartisan Agreement with extension of SE rate increase to HI		
	Total	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI
				Employees and employers, each					
1983	6.70%	5.40%	1.30%	6.70%	5.40%	1.30%	6.70%	5.40%	1.30%
1984	6.70	5.40	1.30	7.00	5.70	1.30	7.00	5.70	1.30
1985	7.05	5.70	1.35	7.05	5.70	1.35	7.05	5.70	1.35
1986-87	7.15	5.70	1.45	7.15	5.70	1.45	7.15	5.70	1.45
1988-89	7.15	5.70	1.45	7.51	6.06	1.45	7.51	6.06	1.45
1990	7.65	6.20	1.45	7.65	6.20	1.45	7.65	6.20	1.45
				Self-employed persons					
1983	9.35	8.05	1.30	9.35	8.05	1.30	9.35	8.05	1.30
1984	9.35	8.05	1.30	12.70	11.40	1.30	14.00	11.40	2.60
1985	9.90	8.55	1.35	12.75	11.40	1.35	14.10	11.40	2.70
1986-87	10.00	8.55	1.45	12.85	11.40	1.45	14.30	11.40	2.90
1988-89	10.00	8.55	1.45	13.57	12.12	1.45	15.02	12.12	2.90
1990	10.75	9.30	1.45	13.85	12.40	1.45	15.30	12.40	2.90

Social Security Administration
Office of the Actuary
February 16, 1983

The **Chairman**. We continue our hearings today on the issue of social security. After the rather remarkable effort made by Congressman Pickle and the social security subcommittee yesterday, there is a strong indication of what may emerge from the Congress. It is my understanding about 90 percent of the Commission's recommendations were adopted yesterday, and they are meeting again today in the subcommittee.

Nonetheless, we may find areas of disagreement. We think it is necessary and important that we hear from a variety of persons representing themselves and organizations who have different views. Obviously we are very pleased when Members of Congress come before the committee.

This morning we have Senator Lugar and Congressman Schulze. Senator Boschwitz has not yet arrived. Dick, if you want to proceed.

Mr. **Schulze**. I will. Thank you, Mr. Chairman.

The **Chairman**. I have to step out of the room in just a second, but Senator Moynihan won't let you get away with anything.

Mr. **Schulze**. I will be happy to have him preside.

STATEMENT OF HON. RICHARD T. SCHULZE, A U.S. REPRESENTATIVE FROM THE STATE OF PENNSYLVANIA

Mr. **Schulze**. Mr. Chairman, first I want to express my appreciation to you and the Committee on Finance for the opportunity to appear here today and to present the proposal for a social security savings bond, which I have introduced in the House and which Senator Symms has introduced here in the Senate.

This proposal would contribute to the solution of the near-term solvency problems of the social security OASI trust fund. A revenue estimate from the Joint Committee on Taxation indicates that by 1988 alone, the cumulative cash-flow benefits to the trust fund from the bond program would be $7.463 billion.

The social security savings bond program will create a new way for retired Americans to invest and for these same retired Americans to participate in a patriotic effort to preserve the social security system.

The bonds would augment and enhance the proposals of the National Commission on Social Security Reform, and in no way would the bonds detract from the compromise agreement. Rather, they would help close the gap between the revenues raised by the Commission proposal and the estimated shortfall in trust fund revenues.

Here is how the social security bond program would work: At the election of a social security recipient, the entire amount of retirement benefits payable for a 12-month period would be disbursed by the Social Security Administration in the form of a bond registered in the name of the electing recipient.

The bond would be issued at the end of the 12-month period, or a shorter period in the event of the death of the recipient. Once issued, it could be redeemed, or it could be held for any length of time.

The bond would be free of all taxes: Federal and State income taxes, Federal estate taxes and State inheritance taxes. The value of the bond and all accrued interest would be excluded from the taxable estate. Similarly, all interest earned on the bonds would be tax free. Any amount of benefits that could be otherwise subject to income tax would be excludable from taxable income until the recipient redeems the bond, and then 50 percent of the face value of the bond would be taxable.

Senator MOYNIHAN. If I could interject, that sort of matches the Commission proposal.

Mr. SCHULZE. Yes. That ties in and dovetails with the Commission proposal.

Bonds remaining unredeemed at the death of an elector would pass according to the terms of the elector's will or the laws of intestacy. When redeemed by an heir or beneficiary under the will, neither the accrued interest nor the otherwise taxable portion of the bond principal would be taxed to the heir.

In order to elect the bonds rather than monthly checks an OASI recipient would make application to the Social Security Administration. The election would be irrevocable for 12 months and could be renewed automatically.

The bonds would be attractive for many social security recipients who are fortunate in their economic circumstances and do not need their OASI income for current purposes. The bond would be a desirable alternative investment because of the tax deferral on current taxable benefits because of the potential for permanent deferral if the bond is not redeemed before death, and because of the tax-exempt interest which would be earned.

The bond would accrue interest at 70 percent of the Treasury bill rate, beginning with the date of the first social security payment after the election went into effect. Interest would accrue on the full amount of benefits foregone, not just the otherwise taxable portion.

It is extremely important, Mr. Chairman, to recognize the multiplier effect of the bond on trust fund reserves: By foregoing funds to be received through taxation of one-half of the benefits received by high-bracket taxpayers, the fund will retain all of the cash which would have been paid out in benefits. Now, assuming half the benefits were subject to tax and a taxpayer is in a 50-percent bracket, the trust fund cash retention multiple is 4 to 1. For every tax dollar the trust fund loses, it gains $4. Assuming a 25-percent bracket electing recipient, the multiple is 8 to 1.

Note that only benefits taken as bonds and held until the death of the electing recipient will remain untaxed. Bonds which are redeemed during a beneficiary's lifetime will be subject to tax just as they would have been if received in the form of social security monthly checks. The trust fund will, however, have the benefit of the deferral for the period the bonds go unredeemed—normally 1 year or more.

Skeptics have asked whether social security recipients can forego their monthly cash payment in favor of a social security savings bond, and the answer is, emphatically, Yes, many can. And if we will consider the following:

The Bureau of the Census has reported that in 1981 there were 2,095,000 families with at least one family member age 65 or older and a total family money income of $25,000 or more. Preliminary data from a 1979 study performed by social security shows that among persons age 65 or older, 14,668 had savings accounts; 4,861,000 owned certificates of deposit; 3,246,000 owned U.S. savings bonds; 593,000 received income from personal loans or mortgages.

There are approximately 4.3 million older Americans who owned dividend-bearing assets.

This program, Mr. Chairman, is not designed for those who depend upon their social security checks for their day-to-day living; it is designed for those who are in a financial position that they do not depend upon that check and they are in a position to be of assistance to help solve our intermediate timeframe problem—the cash shortfall for the near term.

If I can reiterate, it does not conflict with any of the Commission's proposals. Our figures have been extremely conservative. I personally think it is going to bring in a lot more money than the figures proposed, and I think it is a way in which we can offer to the social security recipients an opportunity to contribute to the well-being of the fund.

I will be happy to answer any questions which you may have.

[The prepared statement follows:]

STATEMENT OF THE
HONORABLE RICHARD T. SCHULZE
FEBRUARY 23, 1983

MR. CHAIRMAN, I FIRST WANT TO EXPRESS MY APPRECIATION TO YOU AND THE SUBCOMMITTEE ON SOCIAL SECURITY FOR THE OPPORTUNITY TO APPEAR HERE TODAY AND TO PRESENT THE PROPOSAL FOR A SOCIAL SECURITY SAVINGS BOND, WHICH I HAVE INTRODUCED IN THE HOUSE AND WHICH SENATOR SYMMS HAS INTRODUCED HERE IN THE SENATE.

THIS PROPOSAL WOULD CONTRIBUTE TO THE SOLUTION OF THE NEAR-TERM SOLVENCY PROBLEMS OF THE SOCIAL SECURITY OASI TRUST FUND. A REVENUE ESTIMATE FROM THE JOINT COMMITTEE ON TAXATION INDICATES THAT BY 1988 ALONE, THE CUMULATIVE CASH FLOW BENEFITS TO THE TRUST FUND FROM THE BOND PROGRAM WOULD BE $7.463 BILLION.

THE SOCIAL SECURITY SAVINGS BOND PROGRAM WILL CREATE A NEW WAY FOR RETIRED AMERICANS TO INVEST, AND FOR THESE SAME RETIRED AMERICANS TO PARTICIPATE IN A PATRIOTIC EFFORT TO PRESERVE THE SOCIAL SECURITY SYSTEM.

THE BONDS WOULD AUGMENT AND ENHANCE THE PROPOSALS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM. IN NO WAY WOULD THE BONDS DETRACT FROM THE COMPROMISE AGREEMENT. RATHER, THEY WOULD HELP CLOSE THE GAP BETWEEN THE REVENUES RAISED BY THE COMMISSION PROPOSAL ($168 BILLION) AND THE ESTIMATED SHORT-FALL IN TRUST FUND REVENUES ($200 BILLION).

HERE IS HOW THE SOCIAL SECURITY SAVINGS BOND PROGRAM WOULD WORK:

1. At the election of a Social Security recipient, the entire amount of retirement benefits (OASI) payable for a twelve-month period would be disbursed by the Social Security Administration in the form of a bond registered in the name of the electing recipient.

2. The bond would be issued at the end of the twelve-month period, or a shorter period, in the event of the death of the electing recipient. Once issued, it could be redeemed or it could be held for any length of time.

3. The bond would be free of all taxes: federal and state income taxes, federal estate taxes and state inheritance taxes. The value of the bond and all accrued interest would be excluded from the taxable estate. Similarly, all interest earned on the bonds would be tax-free. Any amount of benefits that could otherwise be subject to income tax (as has been proposed by the National Commission) will be excluded from taxable income until the recipient redeems the bond. Then, 50 percent of the face value of the bond would be taxable.

4. Bonds remaining unredeemed at the death of an elector would pass according to the terms of the elector's will or the laws of intestacy. When redeemed by an heir or beneficiary under the will, neither the accrued interest nor the otherwise taxable portion of the bond principal (reflecting foregone OASI payments) would be taxed to the heir.

5. In order to elect the bonds rather than monthly checks an OASI recipient would make application to the Social Security Administration. The election would be irrevocable for twelve months, and could be renewed automatically.

6. The bonds would be attractive for many Social Security recipients who are fortunate in their economic circumstances and do not need their OASI income for current purposes. The bond would be a desirable alternative investment because of the tax deferral on currently taxable benefits, because of the potential for permanent deferral if the bond is not redeemed before death, and because of the tax exempt interest which would be earned.

7. The bonds would accrue interest at 70% of the Treasury Bill rate beginning with the date of the first Social Security payment after the election went into effect. Interest would accrue on the full amount of benefits foregone, not just the otherwise taxable portion.

It is important to recognize the multiplier effect of the bond on Trust Fund revenues: By foregoing funds to be received through taxation of one-half of the benefits received by high bracket taxpayers, the fund will retain all the cash which would have been paid out in benefits. Assuming half the benefits were subject to tax, and a taxpayer in a 50% bracket, the Trust Fund cash retention multiple is 4 to 1. For every tax dollar the Trust Fund looses, it gains four bond dollars. Assuming a 25% bracket electing recipient, the multiple is 8 to 1.

Note that only benefits taken as bonds and held until the death of the electing recipient will remain untaxed. Bonds which are redeemed during a beneficiary's lifetime will be subject to tax just as they would have been if received in the form of Social Security monthly checks. The Trust Fund will, however, have had the benefit of the deferral for the period the bonds go unredeemed -- normally one year or more.

Skeptics have asked whether Social Security recipients can afford to forego their monthly cash payment in favor of a Social Security Savings Bond. The answer is emphatically, yes, many can. Consider the following:

1. The Bureau of the Census has reported that in 1981, there were 2,095,000 families with at least one family member age 65 or older and a total family money income of $25,000 or more. Further, there were an additional 484,000 unrelated persons with a total money income of $20,000 or more. Of these persons collectively, 514,000 had total money income of $50,000 per year or more. Surely these Americans can afford to invest in the future of less fortunate retired Americans.

2. The New York Stock Exchange has reported that 4.5 million of the 30 million stockholders in the United States are 65 or older.

3. The Exchange has also reported that as of mid-1980, 393,000 Americans aged 65 or older made their first stock or mutual fund purchase during the five preceding years. This compares with the 3,842,000 "veteran" stockholders aged 65 and over.

4. Preliminary data from a 1979 study performed by Social Security shows that among persons aged 65 years or older, 14,668,000 had savings accounts; 4,861,000 owned certificates of deposit; 3,246,000 owned U.S. Savings Bonds; 593,000 received income from personal loans or mortgages. The study also found that there were approximately 4.3 million older Americans who owned dividend-bearing assets. The study disclosed that older Americans invest in a variety of illiquid assets as well as interest and dividend-bearing investments.

5. A 1977 Consumer Credit Survey published by the Federal Reserve Bank found that families with a family head age 65 or over held significant assets in checking or savings accounts: approximately 16% held $2,000 or more in checking accounts; over 40% held $2,000 or more in a savings account; 16.9% of the families with family head age 65-74 owned certificates of deposit; 3.8% owned certificates with a value of more than $10,000. In the 75 and over age group, 14.6% owned certificates; 7.9% owned certificates with a value more than $10,000.

6. According to the IRS, 45% of all reported savings account interest is earned by people over 65, even though they represent only 11% of the population.

7. A 1977 University of Michigan study determined that older Americans have a preference for bonds and savings accounts over investment in real estate and other investment modes. The rate of increase in preference for liquid investments increases as investors get older.

IT IS CLEAR THEN, THAT RETIRED AMERICANS HOLD INVESTMENTS WHEN THEY RETIRE. AND IT IS CLEAR THAT THOSE OLDER AMERICANS WHO HAVE A SUBSTANTIAL INCOME STREAM WILL CONTINUE TO MAKE INVESTMENTS AFTER THEIR RETIREMENT. SOCIAL SECURITY SAVINGS BONDS WILL BE AN ATTRACTIVE INVESTMENT OPTION FOR BOTH FINANCIAL AND PATRIOTIC REASONS.

DURING WORLD WAR II, THE GOVERNMENT ESTABLISHED THE WAR BOND PROGRAM AND GAVE IT WIDE AND FORCEFUL PUBLICITY. PRESIDENT ROOSEVELT GAVE HIS PERSONAL ENDORSEMENT TO THE PROGRAM BY PURCHASING THE FIRST SERIES E BOND ISSUED. AS IS WELL KNOWN, THE PROGRAM WAS A SUCCESS. THE RECEIPTS FROM THE BOND PROGRAM PLAYED AN IMPORTANT ROLE IN FUNDING THE WAR EFFORT.

I BELIEVE THAT THE SOCIAL SECURITY BOND PROGRAM WILL TOUCH A RESPONSIVE, PATRIOTIC CORD IN THE HEARTS OF MANY AMERICANS AND THAT THIS WILL ADD TO THE SUCCESS OF THE PROGRAM.

MR. CHAIRMAN, SOCIAL SECURITY SAVINGS BONDS ARE A MEANS OF IMPROVING THE CASH POSITION OF THE OASI TRUST FUND WHILE MAINTAINING THE INTEGRITY OF THE NATIONAL COMMISSION'S COMPROMISE PACKAGE.

IT IS A PROGRAM THAT WILL ENCOURAGE WELL-TO-DO RECIPIENTS TO INVEST IN THE FUTURES OF OTHER RETIRED AMERICANS WHO DO NOT HAVE THEIR MEANS. THE INVESTMENT WOULD HELP SAVE THE SOCIAL SECURITY SYSTEM ON WHICH SO MANY AMERICANS DEPEND FOR THEIR SURVIVAL.

THE BOND PROGRAM WOULD CONTRIBUTE NOT ONLY FINANCIALLY, BUT ALSO TO AN IMPROVED PERCEPTION OF THE SYSTEM BY YOUNGER AMERICANS. THEY WOULD SEE THAT THE SYSTEM WOULD BE BACKED NOT JUST BY THE PROMISES OF GOVERNMENT -- THOSE OF US HERE ON CAPITOL HILL -- BUT ALSO BY THE FAITH AND INVESTMENT OF MANY SOCIAL SECURITY RECIPIENTS THEMSELVES.

MR. CHAIRMAN, MY COLLEAGUES, I THANK YOU AND COMMEND TO YOU THE CONSIDERATION OF SOCIAL SECURITY SAVINGS BONDS.

Senator MOYNIHAN. Sir, that is an interesting idea.

Could I ask you one question, Mr. Schulze? I am not quite clear on your proposal. You say the bonds would accrue interest at 70 percent of the Treasury bill rate beginning with the date that the first social security payment after the election went into effect. Does that remain the percentage?

Mr. SCHULZE. Well, through that time period, through that single-year time period, and then it is again refigured in the following year.

Senator MOYNIHAN. Oh. So it, in a sense, floats with the bill rate, whatever that is?

Mr. SCHULZE. Yes. It is very similar to an all-savers.

Senator MOYNIHAN. Oh, very similar to all-savers.

Mr. SCHULZE. It has some advantages over an all-savers.

Senator MOYNIHAN. There is some similarity in this proposal to the—I am not much of a bondholder, but the Treasury issued flower bonds 20 years ago, and we still have some of them in the social security trust fund, which were designed to be tax-exempt when they were parts of estates. There was a reason for doing it, and they were obviously good bonds, as the trustees purchased them for the trust fund.

This is a creative idea, and we thank you very much. I don't know whether this is going to be something that we can get to in the immediate matters before us, but it is something we ought very carefully to consider.

What is the situation on your side right now?

Mr. SCHULZE. I will offer this in full committee. I don't think that the subcommittee is an appropriate place to offer the amendment—you know, it's pretty tense over there right now.

Senator MOYNIHAN. Yes.

Mr. SCHULZE. It is just a tactical decision on my part not to offer it at the subcommittee level but offer it at the full committee level.

My effort is not to disrupt the flow of this legislation but to try to enhance it. As you know, we do have a shortfall in the near term, and we have a shortfall in the long term.

Senator MOYNIHAN. We do.

Mr. SCHULZE. And there are some of these little things which I feel we can do which may make those other decisions not quite so tough. And that's my estimation.

Senator MOYNIHAN. Well, let this colleague from the other place encourage you in just that thought; it's a combination of relatively modest measures that is going to make this possible, and this might very well be one of those relatively modest measures but an important one, and I thank you very much for your testimony.

Mr. SCHULZE. I appreciate the opportunity to present it.

Mr. Chairman, if I may have 30 seconds, there is one more issue I would like to very briefly discuss; and that is that tomorrow your committee will hear from my fellow Pennsylvanian, Mr. Andrew Kinsinger. He is the chairman of the Old Order Amish Steering Committee, and he will be here to testify regarding the impact of social security insurance on members of his faith.

In 1965, Congress exempted from social security self-employment tax those individuals who belong to religious sects conscientiously opposed to public insurance and, in particular, social security.

Congressman Walker and I have introduced a bill in the House to expand this narrow exemption to include employees and employers engaged in farming. The most notable sect to which this exemption applies is the Amish community.

I am sure that many members of the committee are familiar with the religious beliefs of the Amish community. Their communities are models of stability and morality—qualities which are maintained by their devout religious teaching and living.

I will be unable to accompany Mr. Kinsinger here tomorrow, but I would like to take this opportunity to commend his testimony to you.

And, Mr. Chairman, I would request that my statement regarding the need for an exemption for the Amish be included at the appropriate point of the record of tomorrow's proceedings.

The CHAIRMAN. Thank you. We will also indicate to the witness that you were here and made that statement.

Mr. SCHULZE. I thank you, and I thank the committee.

Senator MOYNIHAN. Thank you, sir.

The CHAIRMAN. Senator Boschwitz? Senator Lugar? Speak now or forever hold your peace.

[No response.]

What about Jim Schuyler? Yes, Jim's here. All right.

I see we have a panel, Jim; you and John Fitch.

I would welcome you to the committee and suggest that, if you can summarize your statements, we would appreciate that. The entire statement will be made a part of the record, as will the statements of Senator Boschwitz and Senator Lugar if they would prefer to submit statements rather than to appear.

Jim?

STATEMENT OF JAMES SCHUYLER, STAFF VICE PRESIDENT/LEGISLATIVE COUNSEL, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. SCHUYLER. Thank you, Mr. Chairman. My name is Jim Schuyler.

The CHAIRMAN. Also, who is this fellow with you there?

Mr. SCHUYLER. Let me introduce Ed Beck, our tax counsel at NAHB, a tremendous acquisition for our staff.

The CHAIRMAN. Good man.

Mr. BECK. Thank you.

Mr. SCHUYLER. I am staff vice president and legislative counsel of the National Association of Home Builders. I am testifying today on behalf of the 107,000 members of the NAHB, which is the trade association of our Nation's homebuilding industry.

Let me answer two simple questions first: One, why am I here? I would like to offer my apologies that Harry Pryde, our incoming president, was unable to be here today. He has been meeting all week with our other senior elected officers in Seattle regarding our own legislative priorities for this year.

One point which I would like to make is that we do regard this issue of resolving the short- and long-term problems of social security as one of our most important priorities.

Second, why are we here? I must say that we are not particularly experts in the area of social security, but I think if you look at the problems in housing over the last couple of years, particularly looking at the issue of high interest rates, we feel that resolving, again, both the short-term and long-term issues in social security as part of an overall budget package is essential to a sustained long-term economic recovery, particularly for the homebuilding industry.

Quite simply, we would like to say that we endorse the recommendations of the National Commission. Now, we would not have recommended each element in that report. We do support certain elements and have a policy which came out of our full board meeting that specifically endorses areas such as delay in scaling back of cost-of-living adjustments for all entitlement programs.

It is true that the Commission's recommendations place a heavy emphasis upon tax increases as opposed to benefits to meet social security's current financial difficulties. This is a concern of ours.

There is no question that the payroll and self-employed tax will be passed on to the consumer, and will have an impact on housing costs. We indicate in our testimony that we believe that impact is not a very major impact.

In addition, the Commission has not developed an approach to provide for the long-term solvency of social security; however, there is no question that the Commission has taken tremendous strides, clearly, in identifying the problems confronting social security and in developing a reasonable and workable solution.

I think there are a number of reasons, largely having to do with confidence, for the elderly, for consumers, for a whole variety of sectors of the economy, that it is essential to tackle this issue now, and we are very pleased that you are moving as quickly as you are and that the House Ways and Means Committee is moving on track.

I think, very importantly, the recommendations of the Commission also provide the springboard for bringing some fiscal sanity into other entitlement programs. The scaling back of the cost-of-living adjustments and a look at all entitlement programs, we believe are a necessity to gain control over the Federal budget.

In addition to the short-term solutions, we do recommend a number of options that we believe should be considered regarding the long-term problem.

First, we believe that Congress should gradually increase the present retirement age under social security. The recommendations of some of the Commission members with regard to the retirement age we believe should be implemented and we think this would bring the program more in line with actuarial reality.

For the last couple of years we have been looking at the issue of the Consumer Price Index, particularly as regards housing.

We believe that the method of indexing benefits should be revised to be the less of wages or prices. Criticisms of the current procedures for computing the CPI on the grounds that it overemphasized the housing component resulted in a change in CPI to a rental equivalency. Unfortunately, as we look at rents today, that may well boomerang since future projections show that rents are increasing at a rapid rate.

The variety of difficulties with the CPI we think underscore the need to provide for a more flexible and realistic index. Since wages, and not prices, are the base for which contributions are made, we think that Congress should consider revising the indexing formula to index benefits to the lesser of wages or prices.

I must say I am in no way an expert on "bend points," but from what they tell me it looks as though Congress should look closely at this issue as well, because this could provide a significant change in benefits in a manner which would be fairer for all workers, regardless of how long the worker lives.

In summary, we urge the Congress to resolve quickly the impending fiscal crisis confronting social security. We feel the recommendations of the Commission provide an acceptable package on the short term. We also believe that it is crucial to deal with the long-term problems as well.

Let me end with one caution. Housing starts went up to 1.7 million in January of this year. We are very gratified by that. We are very hopeful that that is a sign that production will hit the 1.4-million level that we are projecting for 1983. However, our own projections are based on a continued decline in interest rates through 1983—both mortgage rates and a decline in the prime. That's why we are here today.

If this issue is not resolved, if the budget issue is not resolved, if the Federal Reserve Board returns to its tight monetary policies, I'm afraid that we won't see the kind of housing production that can help lead us to an economic recovery that we would like to see this year.

We do hope to be back at some time later in the year to talk about the issues of inadequate supply of affordable mortgage credit, which will become a problem as we move toward recovery.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT
OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
BEFORE THE
COMMITTEE ON FINANCE
U.S. SENATE
ON
REVISIONS IN SOCIAL SECURITY

FEBRUARY 23, 1983

Mr. Chairman and Members of the Committee:

My name is Jim Schuyler, and I am Staff Vice President/ Legislative Counsel of the National Association of Home Builders. I am testifying today on behalf of the more than 107,000 members of the National Association of Home Builders, (NAHB). NAHB is a trade association of the nation's home building industry.

I appreciate the opportunity to present our views on proposals to provide for the solvency of social security.

I. INTRODUCTION

The recommendations of the bipartisan National Commission on Social Security Reform must be viewed as a positive and constructive contribution to a resolution of the impending fiscal crisis confronting the social security system. The recommendations of the Commission were a compromise, steering a middle ground between an approach relying primarily upon tax increases as opposed to an approach relying upon benefit changes. Some elements of the Commission Report, particularly a delay and scaling back of cost of living adjustments (COLAs), NAHB has advocated not only for social security, but also for other indexed entitlement programs. NAHB would not have recommended other elements of the Report. But, as a package, because of the need to develop a bipartisan consensus and take the steps necessary to provide for the continuing solvency of social security, NAHB endorses the recommendations of the National Commission.

NAHB's support for the work of the Commission does not stem from the belief that the immediate, direct effects of the recommendations will be totally positive. To the contrary, the Commission's recommendations place a heavy emphasis upon tax increases to meet social security's current financial difficulties. The payroll and self-employed tax increases, which are basically a tax upon labor, will result in higher labor costs, which will ultimately be passed on to the consumer of American goods, including the new home buyer. In addition, the Commission has failed to develop an approach to provide for the long term solvency of social security. Nor has the Commission fully remedied the overly generous benefit promises which were made in the past and which brought social security to the difficulty which it now faces.

Despite these inadequacies, the Social Security Commission has taken tremendous strides in both identifying the problem confronting social security and in developing a responsible and workable solution. Acceptance in the Congress of the basic elements of the Commission's report will have a positive effect, which will far outweigh its shortcomings. Congressional action will demonstrate to the American public and the financial community that government can function to resolve pressing national concerns in a responsible, bipartisan manner.

Public confidence in the stability of the politicial system is essential at this point in our nation's economic development. Optimism about the economic future is essential if we are to have a sustained economic recovery. Consumer confidence is a necessity for growth in small business. Part of consumer confidence is confidence in our government and its ability to provide for essential programs and to keep its promises.

In addition, resolution of the social security problem is essential to calm the fears of the elderly, those who depend on social security. The action of the Social Security Commission, and Congressional adoption of its recommendations will help in reducing enormous federal budget deficits. Without such action, budget deficits will inevitably lead to higher interest rates.

Finally, the recommendations of the Commission provide a springboard for bringing fiscal sanity into other entitlement programs. A scaling back of cost-of-living adjustments and federal government entitlement programs are a necessity to gain control over the federal budget. NAHB applauds the President in extending the recommedations of the Commission to other indexed programs.

II. SURVEY OF HOUSING INDUSTRY AND EFFECT OF SOCIAL SECURITY REVISIONS ON HOUSING

Housing is now beginning to come out of its worst downturn over the past three years since the Great Depression. Housing is a highly interest sensitive industry. High interest rates, created by an overly restrictive monetary policy colliding with an expansive fiscal policy, have devastated the housing industry. While unemployment rates nationally hover above 10 percent, the annual unemployment rate among construction workers for 1982 was at 20 percent. NAHB's membership has declined from a peak of over 125,000 members in 1979 to approximately 107,000 currently. But, the current view of home builders today is optimism. The prospects of lower interest rates, along with declining inflationary expectations, have created the conditions for an economic recovery and a rebound in home building and home sales.

However, there is continuing concern over large federal deficits and the large unemployed labor force.
It is essential that the Congress and the Administration take steps to restore national confidence and extend to the consumer the optimism which our members feel. The ability of our government to deal with our nation's financial affairs and preserve the financial security of social security is an important element in restoring this confidence. This is the single most important contribution which a resolution of the social security issue can provide. A review of the home building industry from NAHB's perspective is important in arriving at a conclusion about the immediate effects of the Social Security Commission's proposals upon homebuilding.

The construction industry is vast and complex. The industry employs million of people directly and indirectly. It is the sum of activity in land development; the use of materials and equipment; and the fabrication, alteration, repair, and maintenance of immobile physical structures. The wide variety of construction ranges from the laying of underground utilities to the building of skyscrapers for residential and commercial use to the building of small townhouses and residential subdivisions.

Any change in the construction industry is felt by thousands of builders, subcontractors, distributors and suppliers, and millions of consumers.

Local markets are the basis for construction. Housing is built based on the demand in individual areas. Demand for housing, office space, schools, and churches in an area cannot be transferred outside of that general area.

The industry does not have any giants like General Motors or Ford. Probably there never will be. In 1982, the largest home building firm in the country started less than 1 percent of the total national housing starts. The industry is composed of a large number of small firms. The Census of the Construction Industry data published for 1977, 1972 and 1967 show how small an average builder firm is and the extent of decentralization of the industry.

Although NAHB membership includes about 40 percent of the builders in the country, it covers about 75 percent of the housing starts.

The diversification of builders into other construction-related (and into many non-construction-related) fields is in direct response to the nature of the construction industry. The striking changes in volume caused by frequency of changes in money flows into capital investment and the high long-term interest rates forced builders to enter many fields of construction activity rather than restricting themselves to one type of operation. There are significant changes in the operation of builder firms during the last decade and particularly during the last five years.

Looking at the composition of the home building industry in more detail, the first observation is that most home builders operate in the corporate form. Over 75 percent were organized as corporations as of October 1982. Compared to this, 67 percent were organized as corporations during 1976. The percentage of sole proprietorships has declined from 25.4 percent in 1976 to 20.1 percent in October 1982. The percentage of partnership firms has not changed significantly during the last five years.

FORM OF BUILDING FIRM OWNERSHIP
(percent in billions)

	1969	1976	Oct. 1978	June 1979	June 1980	May 1982	Oct. 1982
Corporation	45.5%	67.0%	67.3%	67.8%	69.8%	73.6%	73.6%
Sole Proprietorship	36.9	25.4	25.3	24.9	23.3	20.4	20.1
Other (Partnership & Joint Venture)	17.7	7.7	7.4	7.3	6.8	6.0	6.3

SOURCE: NAHB Economics Division

Most of these builders are small, both in terms of volume and in terms of employees. The percentage of builders starting fewer than 25 units has increased from 64.5 percent in 1976 to 72.6 percent in 1982. In addition, 53.5 percent of the builders in 1982 had a volume of less than 10 units. In terms of employment, in 1982, 77.2 percent of NAHB's members employed less than 10 employees. Only 1.7 percent of the members employed over 100 persons.

Employment by Percent of NAHB Membership: 1982

Number of Employees:	1982 (%)
Less than 10 Employees	77.2%
11-25	13.5
26-100	7.5
Over 100	1.7

SOURCE: NAHB Economics Division

While NAHB's members often have few employees, they do rely extensively on subcontractors. Many of these subcontractors are self-employed individuals performing one phase of the overall construction process.

The increase in the employer-employee tax will affect home costs. Generally, the cost of a new home includes the following elements:

NEW HOME SALES

Item	% of Total Costs
Financing	12%
Overhead & Profit	16
Labor	16
Land & Development Costs	23
Materials	33
Total	100%

SOURCE: NAHB Economics Division

Looking only at the labor component, which is 16 percent, it is estimated that acceleration of employer-employee taxes, only, will increase costs for employers in 1984 by $118. The impact of the 1988 and 1989 tax increase is approximately $200 for a single family unit. This is the direct labor costs and does not include higher labor costs associated with other service components and increased labor costs for materials involved in home construction.

For multifamily construction, the costs is estimated to be $55 per multifamily unit in 1984 and $100 per unit in 1988 and 1989.

Higher unit labor costs also could indirectly affect the employment of construction workers. The trend towards automation, as in other industries, is also evident in home building. Greater use of labor saving devices could be accelerated by the increased taxes associated with social security. While this is a positive trend in terms of productivity, it does lead to short term structural problems as fewer workers are rehired.

In addition, because most home builders are small businessmen, and the corporate income tax is graduated, the deductions associated with increased payroll taxes for employers are not as significant as those for the large business. Therefore, the burden of increased social security taxes falls most heavily on the smaller builder who most needs additional cash and capital to keep the business afloat and to grow.

This same difficulty is magnified for subcontractors, many of whom are self-employed. The increase in the self-employed social security tax, which the Commission recommended, will fall most heavily on the small self-employed individual and subcontractor. This small businessman, generally, is in a low marginal tax bracket. Therefore, the Commission's proposed deduction for 50 percent of the self-employed tax will not compensate most self-employed individuals for higher social security taxes.

In summary, the immediate effects of the proposed changes in the tax area will be negative. Higher taxes will be mildly inflationary and will hit the small builder and subcontractor the hardest. The psychological effect of increased taxes upon workers will also be negative since most workers do not enjoy the benefits of indexed wage increases and are concerned about the current level of payroll taxes.

Despite these negative aspects, the overall effect of the social security recommendations must be viewed as positive.

Briefly, these positive elements are:

- A bipartisan consensus on a matter of national concern which must be resolved within the next several months.
- A reduction in future federal deficits.
- A starting point to provide for the long financial stability of social security.
- A framework for limiting COLA increases in other programs.

III. ANALYSIS OF COMMISSION REPORT

In general, looking at the work of the National Commission on Social Security Reform, the final product which the Commission drafted must be given high marks in face of the adversity confronting the Commission. There are many elements of the compromise which NAHB would oppose if viewed in isolation. However, as a package, the Commission Report can be viewed as a workable solution to the immediate short term problems confronting social security.

It must be clearly understood, however, that the Commissions's Report does not solve the financing problems confronting social security forever in the future. To the contrary, to adopt the Commission's Report ensures that Congress will be revisiting social security and the conflicting solutions to its funding problem in the future. Furthermore, the Commission ignored looming problems confronting the Medicare program.

NAHB urges Congress to use the Commission's Report as a stepping off point to address long term problems which the Commission does not resolve. The Commission found a long term actuarial imbalance of 1.82 percent of taxable payroll. Its recommendations address a good portion but not all of this shortfall. At this critical point, Congress should develop a long term solution for social security. NAHB joins with other members of the business community in seeking to work with this Committee and the Congress in developing a reasonable and acceptable approach.

Looking at the specific elements of the Commission's Report, some of its recommendations follow NAHB's statement of policy which is Appendix A of this testimony. NAHB favors a delay in the automatic cost of living adjustments of OASDI benefits until December 1983 and a calendar year COLA for years thereafter, Changes in the cost of living adjustment for social security are essential. While the delay in COLA benefits fails to deal with the fundamental question of whether or not benefits should be automatically indexed and whether or not the indexing mechanism should be changed, it does provide for a temporary delay of benefit increases which have been eroding the trust fund reserves. In addition, it sets a precedent for COLA delays in other programs which are necessary if the Congress is to get government spending under control.

NAHB applauds the recommendations of the Commission in seeking to expand social security coverage to include federal government employees and to move to prevent further "opting out" of state and local governments. An obvious inconsistency exists under the current situation where those who make the laws regarding social security and those who administer and enforce these laws do not contribute to the system. Clearly, pension rights of civil service employees should not be jeopardized and a supplemental civil service retirement program should be developed. However, there is little justification for total exclusion of federal government workers from social security, and the present practice of "double-dipping", which should be eliminated. The expansion of social security coverage to non-profit organizations also is of merit.

The other benefit changes which the Commission recommended should be implemented. Elimination of "windfall benefits" should be adopted.

In summary, NAHB feels that the thrust of the benefit changes are correct. Perhaps the changes could have gone further. For example, including some current civil service employees under social security or delaying the social security COLA for one year instead of six months would have preserved additional needed revenues. But, the recommendations represent an important step in the right direction.

In addition, NAHB, in developing its policy, did not consider taxing social security benefits. The recommendations of the Commission that 50 percent of OASDI benefits be taxed under the income tax is a recognition that many elderly beneficiaries do not rely solely upon social security benefits as a source of support. In considering this proposal, the so-called "notch" problem should be corrected so that one extra dollar of income does not automatically trigger large additional taxes based upon social security benefits.

The Commission's recommendations concerning employer-employee tax increases and the self-employment tax increases place heavy emphasis upon increased taxes as a means of solving the short term difficulties facing social security. These two changes account for $58 billion of the additional $168 billion in short term revenue and benefit changes recommended by the Commission. In other words, about one-third of the "solution" for social security involves payroll tax increases. As previously noted, there are negative implications for these tax increases, both in terms of inflation and labor costs. In addition, the causes of the current social security problem can be traced largely to overly generous benefit promises made in the past. In particular, the adoption in 1972 of provisions which gave retired workers full cost of living increases without limit has led to an almost insupportable tax burden in the form of social security payroll taxes necessary to support these benefit promises.

Home builders, who by and large are small businessmen, and their employees, rarely receive wages indexed to the cost of living. Private retirement plans are rarely indexed to the cost of living. New entrants into the home building business find themselves faced with high payroll taxes to fund benefits for past workers. Additional taxes, therefore, are difficult to accept. But, this additional revenue will help to fund the social security trust fund during the next several difficult years.

NAHB urges the Congress to consider carefully the effect of self-employment tax increase, since it will fall most heavily on low-income, self-employed workers. The Congress may want to consider, as an alternative to the Commission's recommendations, within the same revenue parameters, a method of reducing the burden of the self-employment tax increase for low-income self-employed individuals. For example, in exchange for a smaller tax deduction than recommended in the Commission Report, the Congress may want to retain the current differential between employer-employee tax and self-employed tax rates for individuals under a certain income level. NAHB would not, however, support proposals which would reduce the total revenue derived from changes in the self-employment tax rate, or increase the deficit in general revenues.

IV. THE LONG TERM SOLUTION

The National Commission found that the total revenue short fall for social security over the long term was 1.82 percent of taxable payroll. The Commission's recommendations reduce the long range deficits, but still leave remaining a short fall of .58 percent of payroll over the long term.

- NAHB urges Congress to act to resolve this long term problem as part of the current social security legislation. Failure to do so will only leave questions in the minds of both workers and retirees about the soundness of the system in which workers contribute hard earned tax dollars and upon which beneficiaries rely.

Specifically, NAHB would make the following recommendations as possible options for providing for a long term solution for social security. Adoption of one or a combination of these proposals could provide sufficient funds to provide for social security.

Congress should increase the present retirement age under social security. Retirement at age 65 might have been appropriate when social security was first initiated. But, today, life expectancies have expanded. A gradual increase in the retirement age of social security should be considered. The recommendations of seven of the Commission members with regard to the retirement age should be implemented. This will bring social security more in line with actuarial reality.

The method of indexing benefits should also be revised. The current method ties benefits to the consumer price index.

Criticism of the procedures for computing the CPI on the grounds that it overemphasized housing costs resulted in a change in the CPI to a rental equivalency. This, however, could boomerang since future projections show rents increasing at a rapid rate.

The difficulties with the CPI underscore the need to provide for a more flexible and realistic index. Since wages -- not prices -- are the base for which contributions to the system are made, Congress should consider revising the indexing formula to index benefits to the lesser of wages or prices. The Commission took a step in this direction when it recommended that beginning in 1988, if the fund ratio is less than 20 percent, the COLA should be based upon the lower of CPI increase or increase in wages. However, the Commission's recommendations are too complicated and fail to address adequately the significance of providing for a realistic indexing formula. Indexing based upon the lesser of CPI increases or increases in wages should be implemented immediately without a 20 percent trigger.

If increasing the retirement age and revising benefit indexing is not adopted, Congress could look closely at the so-called "bend points" for computing present benefits. The current system progressively increases benefits based upon a workers average wages. A change in the bend points by approximately ten percent would provide for a significant reduction in benefits. Such a change would distribute the burden of benefit changes evenly among all beneficiaries, rather than paying more benefits to those fortnuate beneficiaries who happen to live longer than actuarial mortality tables would predict.

Finally, Congress should keep in mind the high sensitivity which social security revenues have upon the state of the economy. In inflationary times, based upon the current indexing formula, benefits exceed revenues, thereby eroding reserves and ultimately creating a revenue shortfall. In poor economic times, reserves and revenues are depleted because high unemployment reduces the work force contibuting to the system. A realistic indexing formula based upon the lesser of wages or CPI increases would address much of the inflationary difficulties. However, there has been no solution put forth for the latter problems of a recessionary economy. One approach to consider is a trigger based upon a 20 percent reserve level, i.e. approximately 2 1/2 months of benefits. If reserves fall below this level because of the state of the economy, then benefit levels could be scaled back. Particularly, cost of living adjustments could be delayed until economic conditions improve.

IV. SUMMARY

In summary, NAHB urges the Congress to resolve the impending fiscal crisis confronting social security.

It applauds this Committee and its Chairman for promising early action.

The recommendations of the Commission provide an acceptable package for the short term crisis confronting social security. It is crucial, however, that in addition to solving the short term crisis, Congress should also take this opportunity to resolve the long term problem confronting social security. NAHB has recommended several possible changes. The opportunity to establish a financially sound social security system over the long term should not pass. We shouldn't wait for another Congress to resolve another social security crisis.

NAHB welcomes the opportunity to work with this Committee and its staff in fashioning a workable proposal for social security.

The CHAIRMAN. Jim, thank you.

Mr. Fitch?

STATEMENT OF JOHN H. FITCH, JR., VICE PRESIDENT, GOVERNMENT RELATIONS, NATIONAL ASSOCIATION OF WHOLESALER DISTRIBUTORS, WASHINGTON, D.C.

Mr. FITCH. Thank you, Mr. Chairman.

The National Association of Wholesaler Distributors is a federation of 123 national wholesale distribution trade associations, with a collective membership of 45,000 firms operating at 150,000 business locations nationwide. Most such firms are small- to medium-sized, closely held, family-owned businesses.

NAW commends the compromise package of the National Commission on Social Security Reform as a constructive first step in resolving the financing problems of the social security system; however, we do not support the package.

The Commission's proposal contains two fundamental flaws which preclude NAW support of the compromise at this time: (1) a failure by the Commission to adequately address the long-term financing problems confronting the social security system; and (2) an overemphasis on tax increases and other revenue considerations rather than long-term structural reforms. These two flaws will result in the need for additional tax increases in the near term and a failure to control mushrooming costs in the future.

Testimony given before the Ways and Means Committee by Health and Human Services Secretary Schweiker underscores the need for decisive congressional action to address the long-term solvency gap in our social security system.

Because wholesale distribution is a labor-intensive industry, spiraling payroll costs have had a profound impact on the financial health and cash-flow position of industry firms. These rising costs are draining already meager profits and preventing the reinvestment of capital into productivity-enhancing initiatives needed by industry firms to remain competitive.

To illustrate that fact, in 1960 a wholesaler distributor with 40 employees paid approximately $4,800 in annual payroll taxes. In 1972, because of successive tax increases, that cost had jumped to $16,500 per year. By 1976 it was $23,000, and today the figure has risen to $43,000—an 889-percent increase in just 23 years.

Given the scheduled payroll-tax rate increases through 1990, this wholesaler distributor will be paying an additional $23,841 in payroll taxes over the next 7 years.

With regard to specific positions taken by the Commission, NAW supports expanding social security coverage to other individuals.

NAW supports changes in benefit-determination formulas to prevent windfall benefits.

NAW opposes the general revenue-type components of the package.

NAW believes the Commission's recommendation on the social security COLA issue are acceptable but could be improved.

NAW opposes advancing the scheduled tax rate increases and the Commission's emphasis on revenue-type solutions.

We are willing to support the compromise package if the committee strengthens the proposal with long-term solvency provisions such as lifting the retirement age, and deemphasizing the proposal's focus on tax and revenue considerations.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

Good Morning, Mr. Chairman, members of the Committee. My name is John H. Fitch, Jr. and I am Vice President-Government Relations for the National Association of Wholesaler-Distributors (NAW). Accompanying me this morning is David P. Sloane, Director-Congressional Relations for the Association.

NAW welcomes this opportunity to share its views on the Social Security financing issue. The leadership of this important Subcommittee deserves substantial praise and recognition for the tireless effort it has put forth in working toward resolutions to this difficult problem over the past several years.

We will focus our comments this morning on the bipartisan "compromise" proposal offered by the National Commission on Social Security Reform. We have a number of comments to make about the focus of the Commission's recommedations, as well as their specific impact on the wholesale distribution industry.

The National Commission has done a commendable job of fashioning what we believe to be an important first step toward comprehensive reform. As with any sensitive or controversial issue there was substantial give-and-take as the Commission members sought to craft a compromise proposal acceptable to a multitude of interests. This was not an easy process to be sure.

In NAW's view, the compromise package contains some good and some bad points.

Perhaps most importantly, Commission's members did agree upon the scope of the financing problem--$150-$200 billion through 1990 and 1.8 percent of payroll over the course of the next 75 years ($1.6 trillion). This alone was a major concession for some Commission members and represents a critical starting point from which to proceed, although Health and Human Services Secretary Schweiker's testimony before the Committee the other day raised the specter of an even greater long-term deficit.

Before discussing the components of the Commission's package in detail, let me say at the outset, we believe improvements can and should be made.

As the package now stands, it contains two fundamental flaws in our view. First, it fails to provide for an effective, long-term solution to the Social Security financing problem. In fact, according to Secretary Schweiker, it could be further off than we originally thought. Commission estimates say the proposal falls short of addressing the long-term deficit by .58 percent of payroll through the year 2056, a gap that could exceed $500 billion before all is said and done. Second, the proposal places far too much emphasis on tax and revenue considerations, and not enough on long-term structural reforms.

These two flaws alone beg the question, how long until the next payroll tax hike? Unless improvements in the focus and composition of the package are made, it will not be long.

For the wholesale distribution industry this proposal, in its present form, offers little hope of achieving long-term solvency, and for controlling the mushrooming costs of the program. Because of the labor-intensive nature of wholesale distribution, payroll tax costs weigh heavily in the financial operation and cash flow position of most industry firms. Given the already difficult economic circumstances confronting wholesaler-distributors at this time, more payroll tax increases would not be well-received.

Unless structural improvements can be made to ensure cost control and long-term solvency, NAW cannot support the Commission's proposal.

We urge this Committee to take a lead role in reshaping the Commission's package into farsighted, well-balanced legislation to resolve the short and long-term financing deficiencies of our Social Security system. If we had assurances that such legislation would fully resolve the long-term financing problem, without excessive reliance on tax increases we would support and work towards its enactment.

Background information on the National Association of Wholesaler-Distributors and the industry, which should prove helpful in understanding our concerns about the Social Security financing issue, is contained in the Appendix which follows this statement.

NAW Position on the National Commission's Recommendations

We have confined our comments to key recommendations which we support or believe need modification to improve the overall balance and effectiveness of the Commission package.

Expanded Coverage

NAW heartily supports expanding the coverage of our Social Security system. Ideally, everyone should be covered, but as a practical matter there may be overriding constitutional problems with doing so. We believe, as a matter of equity, that all Americans should share equally in the burdens and responsibilities of Social Security. The Commission's approach of covering new civilian Federal hires and employees of non-profit organizations is a reasonable one, however, the Committee should consider the possibility of including all civilian Federal employees under Social Security.

Preventing Windfall Benefits

The current method for determining Social Security benefits does provide an unfair advantage for non-covered workers to qualify for relatively high benefits through short service in covered employment. NAW fully concurs with the approach taken by the Commission to eliminate this advantage which results in windfall benefits.

General Revenue Financing

NAW steadfastly opposes any form of general revenue financing be it direct or indirect. The Commission's proposal contains two "backdoor" general revenue financing provisions, the taxation of Social Security benefits and the onetime, offsetting employee refundable tax credit for increased taxes in 1984. The proposal also contains some direct Treasury payments regarding military service wage credits.

The Association believes that general revenue financing of any kind would sever the relationship between taxes collected and funds paid out, frustrating any efforts or discipline to control costs.

Additionally, these provisions do nothing to address the imbalances that have developed in Social Security and will only serve to postpone effective resolutions to the problem.

Cost-Of-Living Adjustment Changes

Here the Commission stopped short of a timely solution to the problem of an overgenerous indexing formula, although the approaches taken clearly reflect a recognition by Commission members that the COLA issue is a serious one. With the overstatements of inflation that have occurred in the Consumer Price Index during various years since 1975 (when automatic indexing was implemented), benefits have risen faster than wages. This has not been a problem every year, but in certain years retirees have been doing better than the average worker.

The theory behind the indexing of benefits is to keep recipients whole against inflation--no more, no less. A substantial case has been made for, at the very least, shifting to a more representative barometer of inflation. Because of the unique income and consumer needs of the elderly, which are considerably different than for wage earners, the Committee should look into the possibility of a special Consumer Price Index for retirees. This idea has been advanced in many quarters and may have considerable merit.

In the absence of any alternative action, the Commission's recommendation of tying the change in formulas to the status of the reserve funds is acceptable. However, there is no reason to wait until 1987 to implement such a stand-by plan. This should be done as soon as possible. Additionally, the six-month COLA freeze and the shift to a calendar year adjustment basis are positive steps.

Advancing Scheduled Tax Increases

NAW opposes tax increases as a means for reducing Social Security's shortfall. First, these increases have a disproportionate impact on wholesaler-distributors and other labor-intensive businesses. Second, they do little to ensure the long-term stability of this vital government program. The overemphasis on tax and revenue considerations in the Commission's proposal merely treats symptoms, not causes of the Social Security deficit.

As is discussed more fully in the Appendix to this statement, wholesale distribution is a labor-intensive business. Payroll taxes are taxes levied on people, thus industry firms are extremely sensitive to such taxes and tax increases.

Let us examine the impact of the Commission's tax increase recommendations on wholesaler-distributors. Before doing so, however, it is important to understand the already onerous nature of payroll taxes for this industry, and how much they have increased over the years.

In 1960 a wholesaler-distributor with 40 employees paid approximately $4,800 in annual payroll taxes. In 1972, because of successive tax increases, that cost had jumped to $16,500 per year; by 1976 it was $23,400, and today the figure has risen to approximately $43,000--an 889 percent increase in just 23 years.

Today this cost represents 43 percent of the average after tax earnings of $100,000 for such a wholesaler-distributor. While the argument can be made that these costs are tax deductible, the affect on cash flow is extremely negative.

Given the scheduled payroll tax rate increases through 1990, this wholesaler-distributor will be paying an additional $23,841 in payroll taxes over the next seven years, or a total tax tab of $391,902.

Advancing portions of these increases, as the Commission has recommended, would add another $8,042 to the cost of the scheduled increases for a total of $31,883 in new payroll taxes over the next seven years--a 25 percent increase over the increases enacted in the 1977 Social Security Amendments.

These increasing payroll tax burdens are squeezing already meager industry profits, eroding capital earmarked for reinvestment and discouraging the productivity gains industry firms need to remain competitive.

As the Congressional Budget Office has correctly characterized it, the payroll tax is a tax on employment. Further payroll tax increases, combined with already restrictive cash flow circumstances, will discourage wholesaler-distributors from providing new jobs, and are likely to result in significant job loss over the next several years. In 1982, wholesale distribution lost 122,000 jobs; increasing employment costs could discourage the reemployment of these displaced workers in the industry.

CONCLUSION

NAW looks forward to exploring with the Committee potential ways of improving the Commission's package.

One addition to the proposal that would substantially improve its long-term balance would be a provision to gradually lift the retirement age to reflect changing demographics. The Association is not at all confident that steps will be taken by Congress in the years following enactment of a Commission-type package to ensure the long-term solvency of Social Security.

Inclusion of a retirement age increase provision in this package would be a sure sign of Congress' willingness to deal squarely with the long-term solvency gap issue now.

We sincerely hope Congress will take the necessary action to resolve the long-term Social Security financing problem through the adoption of a balanced reform package. Secretary Schweiker's testimony of the other day further underscores the seriousness of the problem and the need for decisive congressional action.

Failing this, we will all wind up looking at the same issues again a few years down the road.

Thank you, Mr. Chairman.

APPENDIX

About NAW and the Wholesale Distribution Industry

The National Association of Wholesaler-Distributors is a federation of 123 national wholesaler-distributor trade associations (see attached list) which have a collective membership of approximately 45,000 firms nationwide, with 150,000 places of business.

The members of our affiliate associations are responsible for over 60 percent of the $1.16 trillion of merchandise which flowed through wholesale distribution channels in 1982.

They also employ a comparable percentage of the 5,290,000 Americans working in the wholesale trade sector in well-paying year-round jobs. In 1982, average hourly earnings in the industry of $7.95 were ahead of the national hourly average of $5.46 by a full 32 percent. Moreover, the average annual wage in wholesale distribution in 1982, according to the U.S. Department of Commerce, was $15,833--$4,938 higher than the national median annual wage of $10,895.

While industry sales topped $1.16 trillion in 1982, wholesale distribution continues to be dominated by small- to medium-sized, closely-held, family-owned businesses. The typical wholesaler-distributor employs from 30 to 50 people, has annual sales in the $3-$5 million range and has an after tax profit of $100,000 - $150,000.

Because wholesale distribution is a labor-intensive, as opposed to capital-intensive business, most of the costs beyond financing inventory are related to the costs of employment. Payrolls typically run from $600.000 to $1,000,000 or more annually for firms in many commodity lines. Employer payroll taxes under the current rate of 6.7 range from $40,000 to $70,000 in these companies. Combined with the other benefits commonly offered by most wholesaler-distributors, payroll or employment costs can easily consume 25 percent of a firm's weekly gross earnings. When added to the other costs of doing business, such as the financing of substantial inventories, energy, transportation, office equipment and other costs, it is easy to see why restrictive cash flow is a constant problem for many industry firms.

Difficult economic times have substantially impacted the wholesale distribution sector. Weak sales during this prolonged recession have cut deeply into already thin profit margins. Record interest rates through 1981 and 1982 have kept operating and inventory costs high and for many the adjustment period is far from over. A substantial portion of the industry in the durable goods business is directly connected to the construction, automotive and industrial sectors of our economy and has suffered accordingly.

Despite difficult economic times, wholesaler-distributors continue to fulfill an important function in our society. They make goods and commodities of every description available at the place and time of need. Wholesaler-distributors purchase goods from producers, inventory these goods, break bulk, sell, deliver and extend credit to retailers and industrial, commercial, institutional, governmental and contractor business users.

Wholesaler-distributors are essential to the efficient satisfaction of consumer and business needs. Further, by the market coverage which they offer smaller suppliers and the support which they provide to their customers, wholesaler-distributors preserve and enhance competition, the critical safeguard of our economic system. According to an NAW survey, the typical wholesaler-distributor established market connections between 133 manufacturers and 533 business customers. Many of these manufacturers are themselves small businessmen who must rely on wholesaler-distributors to establish, maintain and nurture markets for their products. The majority of customers are small businessmen, also, who look to the merchant wholesaler-distributor to provide merchandise availability, credit and other critical services.

National Wholesaler-Distributor Organizations Affiliated with the National Association of Wholesaler-Distributors

Air-conditioning & Refrigeration Wholesalers
American Dental Trade Association
American Jewelry Distributors Association
American Machine Tool Distributors Association
American Supply Association
American Traffic Services Association
American Veterinary Distributors Association
Amusement & Vending Machine Distributors Association
Appliance Parts Distributors Association, Inc.
Associated Equipment Distributors
Associated Wire Rope Fabricators
Association of Footwear Distributors
Association of Steel Distributors
Automotive Service Industry Association
Aviation Distributors & Manufacturers Association

Bearing Specialists Association
Beauty & Barber Supply Institute, Inc.
Bicycle Wholesale Distributors Association, Inc.
Biscuit & Cracker Distributors Association

Ceramic Tile Distributors Association
Ceramics Distributors of America
Coated Abrasives Fabricators Association
Copper & Brass Servicenter Association
Council for Periodical Distributors Association
Council of Wholesale Distributors
  American Institute of Kitchen Dealers

Distributors Council, Inc.
Door & Hardware Institute
Drug Wholesalers Association

Electrical Electronics Materials Distributors Assn.
Explosive Distributors Association, Inc.

Farm Equipment Wholesalers Association
Flat Glass Marketing Association
Fluid Power Distributors Association, Inc.
Food Industries Suppliers Association
Foodservice Equipment Distributors Association

General Merchandise Distributors Council

Health Industry Distributors Association
Hobby Industry Association of America

Independent Medical Distributors Association
Institutional & Service Textile Distributors
  Association, Inc.
International Ceramic Association
Irrigation Association

Machinery Dealers National Association
Mass Merchandising Distributors Association
Material Handling Equipment Distribution Association
Monument Builders of North America-Wholesale Div.
Motorcycle Industry Council
Music Distributors Association

National-American Wholesale Grocers' Association
National Appliance Parts Suppliers Association
National Association of Aluminum Distributors
National Association of Chemical Distributors
National Association of Container Distributors
National Association of Decorative Fabric Distributors
National Association of Electrical Distributors
National Association of Fire Equipment Distributors
National Association of Floor Covering Distributors
National Association of Manufacturing Opticians
National Association of Marine Services, Inc.
National Association of Meat Purveyors
National Association of Plastics Distributors
National Association of Recording Merchandisers, Inc.
National Association of Service Merchandising
National Association of Sporting Goods Wholesalers
National Association of Textile & Apparel Distributors
National Association of Tobacco Distributors
National Association of Writing Instrument Distributors
National Beer Wholesalers Association
National Building Material Distributors Association
National Business Forms Association
National Candy Wholesalers Association
National Commercial Refrigeration Sales Association
National Electronic Distributors Association
National Fastener Distributors Association
National Food Distributors Association
National Frozen Food Association
National Grocers Association
National Independent Bank Equipment Suppliers Assn.
National Industrial Belting Association
National Industrial Glove Distributors Association
National Lawn & Garden Distributors Association
National Locksmith Suppliers Association
National Marine Distributors Association
National Paint Distributors, Inc.
National Paper Trade Association, Inc.
National Plastercraft Association
National Sash & Door Jobbers Association
National School Supply & Equipment Association
National Solid Wastes Management Association
National & Southern Industrial Distributors Associations
National Spa and Pool Institute
National Truck Equipment Association
National Welding Supply Association
National Wheel & Rim Association
National Wholesale Druggists' Association
National Wholesale Furniture Association
National Wholesale Hardware Association
Northamerican Heating & Airconditioning Wholesalers
North American Wholesale Lumber Association, Inc.

Optical Laboratories Association
Outdoor Power Equipment Distributors Association

Pet Industry Distributors Association
Petroleum Equipment Institute
Power Transmission Distributors Association, Inc.

Safety Equipment Distributors Association, Inc.
Scaffold Industry Association
Shoe Service Institute of America
Specialty Tools & Fasteners Distributors Association
Spring Service Association
Steel Service Center Institute

Textile Care Allied Trades Association
Toy Wholesalers' Association of America

United Pesticide Formulators & Distributors Association

Wallcovering Distributors Association
Warehouse Distributors Association for
  Leisure & Mobile Products
Watch Materials & Jewelry Distributors Association
Water and Sewer Distributors Association
Wholesale Florists & Florist Suppliers of America
Wholesale Stationers' Association, Inc.
Wine & Spirits Wholesalers of America, Inc.
Wood Heating Alliance
Woodworking Machinery Distributors Association

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The CHAIRMAN. I appreciate that last statement, because as you know, I introduced S. 76 which would raise the retirement age to 66, then index the age to longevity. That's one issue that wasn't resolved by the Commission, but I think I sense substantial support for extending the retirement age on this committee. Many of us feel that's real reform.

People are living longer. There is no reason age shouldn't be raised. Claude Pepper objects to it, but it is hard for him to make the case at age 83 that we shouldn't work until we are 66. He has made a great contribution to this compromise, and I say that in a complimentary way for former Senator Pepper.

I have no questions. We appreciate your, in one case, endorsement of the compromise. We know it's not perfect, and we appreciate the wholesalers' support if we change the retirement age, and that I hope will be done in the Senate and hopefully in the House. The House, as I indicated earlier, has nearly marked up 90 percent of the package in 1 day. So I really believe that this compromise will literally sail through the Congress with only minor changes.

We appreciate your testimony. Your statements will be made a part of the record.

Mr. FITCH. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Lugar and Senator Boschwitz, do you want to come up separately or together? You are friends.

I think Senator Boschwitz is first.

Senator BOSCHWITZ. Mr. Chairman, since I'm late and I don't know what Senator Lugar's time commitments are, if he wants to go first I certainly have no objection.

The CHAIRMAN. Dick, do you want to reply?

Senator LUGAR. I appreciate that, Mr. Chairman, and I thank the distinguished colleague from Minnesota.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM THE STATE OF INDIANA

Senator LUGAR. Mr. Chairman, I am grateful for this opportunity to appear before the committee to offer testimony in support of a small but important reform to the social security program.

A clear majority of our young people do not expect the system to be intact when they are ready to retire; in the meantime they seek growing demands on the FICA tax on their current incomes. We owe it to these people to guard against any abuse and mismanagement in the program.

Last year, one such area of abuse was brought to my attention: The receipt of social security benefits by nonresident aliens. When the social security program began there were about 100 beneficiaries abroad receiving about $12,000. By 1981, U.S. taxpayers were paying nearly $1 billion each year in social security benefits to 313,000 beneficiaries outside this country.

Recent evaluation of this population of beneficiaries by GAO has illustrated a marked constrast to the average American social security beneficiary. Nonresident aliens have worked only about half as long in social security covered employment as the average wage earner in this country. Alien beneficiaries abroad have paid about half the amount of FICA taxes paid by the average American worker. While there are about 40 dependents to every 100 wage earners in the overall beneficiary population, alien dependents outnumber wage earners by 160 dependents to 100 wage earners. Thirty-five percent of these alien dependents are added after the wage earner has retired and started receiving benefits.

Finally, and most indicative of the inequities of this portion of the program: While Americans receive an average of $5 in benefits for each $1 of FICA tax paid, nonresident aliens receive $23 in benefits for each dollar of FICA taxes. That is a return of their dollar that is four and a half times as great as most American beneficiaries enjoy.

Of course, parenthetically, one of our great problems is the benefits the American beneficiaries enjoy, at the rate of $5 in benefits for a dollar in.

Mr. Chairman, last year I introduced a bill to limit social security benefits paid to nonresident aliens to the amount of their contributions to the system. At that time, and again this year upon its reintroduction, the proposed bill generates an avalanche of favorable public response and publicity. Senator Slade Gorton of Washington pointed out in his recent "Dear Colleague" letter that limiting payments to nonresident aliens had more support—that is, 93 percent from his constituents—than any other of the 20 suggested options for reform.

Obviously, great savings could be achieved by making reform in this area retroactive. I would not discourage the committee from looking into this. That, of course, is where the $1 billion of payments is.

However, the reform proposed in my bill is a much more narrow one—it is prospective only. It affects no benefits currently received by nonresident aliens, and while we are discussing where equity lies in terms of current beneficiaries, we ought to give clear indication to the American public that Congress does not intend to perpetuate this drain on the social security system indefinitely in the future.

The proposal is a modest one which I hope will be incorporated into the Senate's social security reform bill. This reform would not affect one single American citizen either here or abroad; it would not affect any alien currently residing in the United States or in any of its territories. It would not affect any nonresident alien currently receiving benefits. It would not abrogate or in any way alter existing or future treaties or totalization agreements which provide for reciprocity of social security or retirement programs.

Mr. Chairman, S. 213 would make small, common sense changes which would close the loopholes which have led to this abuse.

This is not the first time that Congress has addressed the concern that many aliens were working a relatively short time in the United States, only to return to their native countries to collect generous social security benefits.

In 1956 Congress passed legislation to restrict the payment of benefits to nonresident aliens. Unfortunately, there were so many exceptions written into the legislation that fewer than one-half of 1 percent of alien beneficiaries were affected. It's time that we correct the law before the problem grows even larger.

My bill will delete those exceptions which have led to the payment of three-quarters of a billion dollars in social security dollars each year to nonresident aliens, a majority of whom have never worked in the United States.

I urge the members of the committee to recognize the importance of the issue. There is no justification for the continuation of the program in its current form.

Non-U.S. citizens who do not live in this country have no entitlement to the earnings of U.S. taxpayers. Including this proposal in your reform package will send a clear message that the Congress intends to protect those for whom the program was intended—that is, Americans who have contributed to social security over their working lifetimes.

Mr. Chairman, I thank you for this opportunity to testify.

[The following was submitted for the record:]

PREPARED STATEMENT OF SENATOR RICHARD G. LUGAR, INDIANA

Mr. Chairman and Members of the Committee:

I am grateful for this opportunity to appear before the committee to offer testimony in support of a small, but important, reform to the Social Security program. Certainly no problem is more significant than the crisis of declining public confidence in the Social Security program. A clear majority of our young people do not expect the system to be intact when they are ready to retire. In the meantime, they see the growing demands of the FICA tax on their current incomes. We owe it to these people to guard against any abuse and mismanagement in the program.

Last year, one such area of abuse was brought to my attention: the receipt of Social Security benefits by non-resident aliens. When the Social Security program began, there were about 100 beneficiaries abroad, receiving about $12,000. By 1981, U.S. taxpayers were paying nearly $1 billion each year in Social Security benefits to 313,000 beneficiaries outside this country.

Recent evaluation of this population of beneficiaries by GAO has illustrated a marked contrast to the average American Social Security beneficiary. Non-resident aliens have worked only about half as long in Social Security covered employment as the average wage-earner in this country. Alien beneficiaries abroad have paid about half the amount of FICA taxes paid by the average American worker. While there are about 40 dependents to every 100 wage earners in the overall beneficiary population, alien dependents outnumber wage earners by 169 to 100. Thirty-five percent of these alien dependents are added after the wage-earner has retired and begun receiving benefits. Finally, and most indicative of the inequities in this portion of the program, while Americans receive an average of $5 in benefits for each $1 of FICA tax paid, non-resident aliens receive $23 in benefits for each dollar of FICA taxes. That is a return of their dollar that is four and one-half times as great as most American beneficiaries enjoy.

Mr. Chairman, last year I introduced a bill to limit Social Security benefits paid to non-resident aliens to the amount of their contributions to the system. At that time, and again this year upon its reintroduction, the proposal generated an avalanche of favorable public response and publicity. Senator Gorton pointed out in his recent Dear Colleague that limiting payments to non-resident aliens had more support (93 percent) than any other of the 20 suggested options for reform in a recent survey of his constituents.

Mr. Chairman, obviously great savings could be achieved by making reform in this area retroactive, and I would not discourage the Committee from looking into this. However, the reform proposed in my bill is prospective only. It affects no benefits currently received by non-resident aliens. While we are discussing where equity lies in terms of current beneficiaries, we ought to give clear indication to the American public that Congress does not intend to perpetuate this drain on our Social Security system indefinitiely in the future.

This proposal is a modest one which I hope will be incorporated into the Senate's Social Security reform bill. This reform would not affect one single American citizen, either here or abroad. It would not affect any alien currently residing in the United States or in any of its territories. It would not affect any non-resident alien currently recieving benefits. It would not abrogate or in any way alter existing or future treaties or totalization agreements which provide for reciprocity of Social Security or retirement programs.

Mr. Chairman, S. 213 would make small, common sense changes which would close the loopholes which have led to this abuse. This is not the first time that Congress has addressed the concern that many aliens were working a relatively short time in the U.S., only to return to their native countries to collect generous Social Security benefits. In 1956, Congress passed legislation to restrict the payment of benefits to non-resident aliens. Unfortunately, there were so many exceptions written into the legislation that fewer than one-half of one percent of alien beneficiaries were affected. It's time that we correct the law before the problem grows even larger. My bill will delete those exceptions which have led to the payment of three-quarters of a billion Social Security dollars each year to non-resident aliens, a majority of whom have never even worked in the United States.

I urge members of the Committee to recognize the importance of this issue to the American public. There is simply no justification for the continuation of this program in its current form. Non-U.S. citizens who do not live in this country have no entitlement to the earnings of U.S. taxpayers. including this proposal in your reform package will send a clear message that Congress intends to protect those for whom the program was intended: Americans who have contributed to Social Security over their working lifetimes.

The CHAIRMAN. Thank you, Senator Lugar, I appreciate your earlier efforts to call this to the attention of not only this committee but also to the American taxpayers.

We didn't address this in the Commission. It was raised a time or two, however. There have been a couple of other options suggested. One would be to cut off benefits to dependents because we are told that under the present law a lot of people are adopted overseas to keep the benefits flowing.

We are going to focus on your recommendation. I assume we will be in touch with you as we get into the markup stage to see what we might propose that would be satisfactory.

Senator LUGAR. I thank you, Mr. Chairman. My bill addresses the dependents question by saying that you can't have new dependents after the age of 50. Clearly that's an arbitrary date; the committee could adopt 45-40-35, whatever seems to be reasonable.

And of course the retroactive feature as opposed to the prospective feature has a lot of dollar signs attached to it.

My initial proposal was a fairly simple one, because we were trying to miss the totalization and treaty arrangements, any thought that there was anything unconstitutional or discriminatory about this, that you would have some basis in the Congressional Record service of legal briefs that this would apply a legal bend point.

But it is a modest reform, and I suggest it as a beginning point, not necessarily the end of it.

The CHAIRMAN. As I understand, you have fairly strong bipartisan support for that.

Senator LUGAR. We have 15 cosponsors thus far this year, there were 20 of our colleagues last year, and on the House side over 100 on Congressman Dobbs' tandem piece of legislation.

The CHAIRMAN. Thank you very much, Senator Lugar.

Senator BOSCHWITZ. I believe I am a cosponsor.

Senator LUGAR. You are, indeed.

Senator BOSCHWITZ. You know, one of the other aspects of that, Mr. Chairman, is the fact that you can earn four quarters by working within one quarter. As you may know, to qualify for social security you now have to work 32 quarters, but a quarter is a 3-month period during which you earn $340.

If an itinerant farmworker, let's say, comes and within a 3-month period doesn't earn $340, which is $28 a week, but earns four times that amount, he can get credit for four quarters by working in one quarter, which is another one of the changes that I suggested.

I understand that some fellows who are a little older go and marry younger women and put their children on social security. I haven't looked into that, but——

Senator LUGAR. I'll leave that point to you.

The CHAIRMAN. Yes, right.

[Laughter.]

Senator BOSCHWITZ. When I mentioned that at some of my social security hearings, some of the elderly gentlemen lighted up. They hadn't considered that, I don't think.

The CHAIRMAN. They probably woke up. You probably woke them up.

Senator BOSCHWITZ. Yes, it probably woke them up; that's true.

[Senator Boschwitz's social security newsletter follows:]

SENATOR RUDY
BOSCHWITZ
MINNESOTA

NEWS
RELEASE

IMMEDIATE RELEASE
February 23, 1983

CONTACT: TOM MASON
Press Secretary
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BOSCHWITZ ANNOUNCES SOCIAL SECURITY SURVEY RESULTS

A small sampling of Minnesotans suggests that both retired and non-retired people understand and approve of some modifications in the Social Security system designed to make the system solvent.

The survey was taken of about 800 people attending Town Meetings on Social Security hosted by Senator Rudy Boschwitz. Of 12 possible solutions, only two were supported by less than half of those responding, both proposals of the President's Commission on Social Security.

"To me this demonstrates that if people are given a chance to review some of the changes in Social Security without the usual politicing and demogoguery that accompanies them, they will make a thoughtful, reasoned judgement.

"The dialogue was heated at times, to be sure," Boschwitz said, "but generally pretty constructive. Perhaps seeing that kind of response would give some of my colleagues the necessary courage to tackle the problem head-on."

Boschwitz held Town Meetings in Moorhead, Willmar, Worthington, Rochester, Duluth, and Roseville. He also made presentations to a group representing the St. Paul Chamber of Commerce, and the Metro Senior Federation in Minneapolis.

Boschwitz discussed five of the Commission's proposals and seven of his own while administering the survey.

Only two failed to get more than 50 percent of the sum total of all interviewed. The plan to advance the scheduled tax increase received only 39 percent, and the idea of increasing the self-employed tax got only 36 percent.

The plan to advance the scheduled tax increases was the only question in which a breakdown of retired vs. non-retired interviewees yielded different results. While a plurality of retired people favored advancing the increases (49 percent), a strong 67 percent of non-retired respondents disapproved of the proposal.

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The other 3 Commission proposals discussed received relatively high marks:

- Compulsary coverage of new civilian government employees received the most backing of those surveyed with a 70 percent approval. Twenty-three percent of those surveyed disagreed, and 7 percent had no opinion.

- Taxing higher income recipients for 50 percent of their Social Security benefits was endorsed by 63 percent of those surveyed. Thirty-six percent were opposed and 13 percent had no opinion.

- Delaying the cost-of-living adjustment 6 months from July 1983 to January 1984 was approved by 55 percent of those polled. Forty-two percent were against it and 3 percent had no opinion.

All 7 of the Boschwitz proposals were approved by those surveyed. The breakdown of those looked like this: (NOTE: A further breakdown of each of the following is found on the attached chart.)

- Raise the retirement age -- For: 59 percent, Against: 35 percent, No Opinion: 3 percent.

- Lower the COLA (except for the lowest 25 percent of recipients) -- For: 66 percent, Against: 27 percent, No Opinion: 9 percent.

- Change bendpoint indexing -- For: 56 percent, Against: 20 percent; No Opinion: 24 percent.

- Change the percentages where there is another government pension -- For: 63 percent, Against: 24 percent, No Opinion: 13 percent.

- A change in survivor benefits that eliminates benefits for minor children if one partner dies and the other has income exceeding $25,000 -- For: 79 percent, Against: 14 percent, No Opinion: 4 percent.

- Raising the number of quarters worked to qualify for benefits, making exceptions for women who raise children (currently at 40, raise to 60) -- For: 66 percent, Against: 23 percent, No Opinion: 11 percent.

- Require one quarter's work for one quarter's credit -- For: 80 percent, Against: 9 percent, No Opinion: 11 percent. Currently a worker can get 4 quarters of credit for one quarter of work if he/she earned over $120/week.

RESULTS OF SOCIAL SECURITY HEARINGS IN MINNESOTA
PRESENTED BY SENATOR RUDY BOSCHWITZ
February 1983

	TOTAL			RETIRED			NON-RETIRED		
	Yes	No	No Opin	Yes	No	No Opin	Yes	No	No Opin
PART I: COMMISSION PROPOSALS									
Advance the scheduled tax increases (1985 increase to 1984; 1990 increase to 1988)	39%	51%	9%	49%	39%	13%	28%	67%	5%
Increase self-employed tax (now at 75%)	36	54	10	38	50	12	31	61	8
Tax 50% of Social Security for higher income recipients. Tax 50% of Social security benefits for persons with income above $20,000 (single) or $25,000 (married)	63	36	13	69	29	1	51	48	1
Delay COLA (cost-of-living adjustment). The automatic COLA scheduled for July 1983 would be delayed until January 1984 (6 months)	55	42	3	59	37	4	50	48	2
Federal government employees. Compulsory coverage (new civilian employees) after January 1, 1984	70	23	7	72	20	8	66	27	7
PART II: BOSCHWITZ PROPOSALS									
Raise the retirement age.	59	35	6	53	37	10	63	35	2
a. One month a year until age 66	48	39	13	52	32	16	42	48	10
b. One month a year until age 67	42	43	15	43	38	19	38	50	12
c. One month to 66 and then index	58	30	12	58	28	14	58	32	10

	TOTAL			RETIRED			NON-RETIRED		
	Yes	No	No Opin	Yes	No	No Opin	Yes	No	No Opin
Lower the COLA (except for the lowest 25% of recipients).	66%	27%	9%	59%	34%	6%	74%	19%	7%
a. CPI less 3% for 4 years	39	36	24	39	36	25	39	38	23
b. Average out CPI less $8 (for 4 yrs)	60	25	15	57	26	17	63	26	11
c. CPI less 2% for 5 years	29	46	25	30	46	24	29	47	23
d. CPI less 1% for 20 years	51	29	20	53	38	19	48	33	19
Change bendpoint indexing. Social Security benefits are based on percentages of a worker's average monthly earnings: 90% of first $230; 32% from $230 to $1,388; 15% over $1,388 $230 and $1,388 are bendpoints; increase these by one-half of the wage index instead of the full index	56	20	24	53	18	29	58	22	20
Change percentages where there is another government pension.	63	24	13	54	27	19	71	21	8
Survivor benefits. Eliminate benefits for minor children if one parent dies and the other has income exceeding $25,000	79	17	4	75	20	4	81	14	4
Increase required number of quarters. Currently a person must work 40 quarters (10 years) to qualify for benefits. Making exceptions for women who raise children, raise to 60 quarters	66	23	11	67	18	14	64	28	8
a. Keep at 40 (quarters)	66	22	12	74	12	14	55	34	11
b. Raise to 70	41	34	24	46	22	31	34	48	18
c. Raise to 80	45	34	21	53	20	27	38	48	15
d. Raise to 90	8	56	36	14	34	52	4	71	24
e. Raise to 100	32	40	28	25	30	44	35	47	18

	TOTAL			RETIRED			NON-RETIRED		
	Yes	No	No Opin	Yes	No	No Opin	Yes	No	No Opin
One quarter's credit for one quarter's work. Currently a worker can get 4 quarters of credit for one quarter of work if he/she earns enough (over $120 a week). Change so that a worker can get only one quarter's credit for one quarter's work	80%	9%	11%	80%	7%	13%	82%	13%	5%

SLOWING THE GROWTH OF SOCIAL SECURITY
PRESENTED BY SENATOR RUDY BOSCHWITZ
February 23, 1983

	(in billions)				
Year	Yearly savings with 5% growth instead of 6%	Cumulative savings from Column 1	Compounded growth of $500/mthly benefit at 5 percent	Compounded growth of $500/mthly benefit at 6 percent	Difference
1	1.6	1.6	525	530	5
2	3.3	4.9	551	562	11
3	5.2	10.1	579	596	17
4	7.3	17.4	608	631	23
5	9.6	27.0	638	669	31
6	12.2	39.2	670	709	39
7	15.0	54.2	704	752	48
8	18.0	72.2	739	797	58
9	21.4	93.6	776	845	69
10	25.1	118.7	814	895	81
11	29.1	147.8	855	949	94
12	33.5	181.3	898	1,006	108
13	38.3	219.6	943	1,067	124
14	43.5	263.1	990	1,131	141
15	49.2	312.3	1,040	1,198	158
16	55.4	367.7	1,091	1,270	179
17	62.1	429.8	1,146	1,346	200
18	69.4	499.2	1,203	1,427	224
19	77.3	576.5	1,264	1,513	249
20	85.8	662.3	1,327	1,603	277
25	140.4	1,246.6	1,693	2,146	453
30	220.3	2,176.3	2,161	2,871	711
35	336.4	3,609.1	2,758	3,843	1,085
40	503.1	5,767.3	3,520	5,143	1,623
45	740.8	8,962.6	4,493	6,882	2,389
50	1,077.7	13,631.0	5,734	9,210	3,476

--assuming 1982 actual outlays of $155 billion
and illustrative benefit level of $500--

STATEMENT OF HON. RUDY BOSCHWITZ, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator BOSCHWITZ. Mr. Chairman, I do not have a prepared testimony. I would prefer to discuss in an informal manner, my own views and those of my constituents with regard to social security. Last year I sent a social security newsletter throughout Minnesota. In it, I included the suggestion that Senator Lugar had made, using his idea and using some of the ideas I had developed with your staff and other people. Senator Lugar's suggestion was indeed a very popular one.

I talked during the February recess to eight groups in Minnesota about the Commission report, and got them to vote on the Commission report. I believe you have the results of that, and I would like to go through them briefly with you.

The CHAIRMAN. It pretty much tracks the compromise package, doesn't it?

Senator BOSCHWITZ. The compromise package, interestingly, is less popular than I thought.

The CHAIRMAN. Parts of it are fairly popular—the Federal employees, the delay of the COLA, and taxing benefits.

Senator BOSCHWITZ. Well, the taxing of benefits was quite popular, that's right—63 to 36, as you see, among the approximately 800 people that came to my hearings and filled out these forms.

You see I divide it between the retired and the nonretired. As you can see, the scheduled tax increase was not particularly popular. Of course among the nonretired it was very unpopular, as you can imagine.

The delay of the COLA was not unpopular at all, as you see. Among the retired it was more popular, interestingly, than among the nonretired. They were perfectly willing to accept a delay of the COLA.

Inclusion of the Federal Government employees was a very popular thing. Very frankly, I think it's just a shifting of obligations, and I don't think the Federal Government is going to save any money on it. It certainly has raised the ire of the Federal employees—perhaps with some understanding.

However, I said to all of these groups, Mr. Chairman, that while I admire the Commission's report and will try together with other Senators to amend it and I feel it will probably go forward in the end even if it is not amended, I felt that some structural changes should be made.

Those structural changes come in four areas: The COLA, bend points, the benefit formula, and age.

As you will see, the raising of the retirement age was more popular, interestingly, among the nonretired than it was among the retired. It was, however, clearly a position held by the majority of people.

I gave them several choices: One month a year until the age of 66; one month a year until the age of 67 was reached, in about the year 2010; or one month a year until the age of 66 and then index that. And of course you are familiar with that proposal. That was the most popular of all the proposals, and probably it was the most constructive.

The CHAIRMAN. We have a bill, S. 76, that does raise the retirement age to 66 and indexes it for longevity.

Senator BOSCHWITZ. Fine. I would be pleased to join on that bill.

The CHAIRMAN. I will sign you up.

Senator BOSCHWITZ. I might tell you that, as the chairman knows, I'm up for election this year, and many people advised me to steer clear of social security. Frankly, I think it's a promise that's worth keeping to the American people, not only to those who are on social security but to those who are yet to come, whether it be ourselves—we are contemporaries, more or less—or our children and grandchildren. And I think that the system can be preserved.

The lowering of the COLA, Mr. Chairman, if you will turn over the page in front of you, was also fairly popular—it certainly wasn't unpopular. I gave a number of choices in the newsletter of ways to lower the COLA.

As you will see, the lowering of the COLA among the retired was approved almost 2 to 1, 59 to 34; among the nonretired, 74 to 19—overall, 66 to 27 percent.

Then I gave a series of options: CPI less 3 percent for 4 years; CPI less 2 percent for 5 years; CPI less 1 percent for 20 years; or a method by which the CPI would be "averaged." Last year the 7.4 percent increase in the CPI represented $30 to $35 to all the social security recipients, the average payment being somewhere on the average of $400. So that would be about $30. To reduce that $30 to $22, and pay it to everybody who doesn't receive another Government pension, was the suggestion. That would save about $35 billion over a 4-year period, and that would bring up the people at the lower end and not just expand the disparity between the people at the lower and the upper ends of the social security ladder.

That was the most popular suggestion of all, as you will see on this survey. But nevertheless, lowering the COLA was not unpopular by any means.

Furthermore, the CPI less 1 percent for 20 years was the second most popular idea. That would save some real money.

The CHAIRMAN. Did you explain all of these before they voted?

Senator BOSCHWITZ. Oh, yes, in great detail.

The CHAIRMAN. Because it would be hard to understand bend points for example.

Senator BOSCHWITZ. In bend points, Mr. Chairman, the number of votes declined. And you will see that the number of no opinions increased because it was a more difficult concept to understand.

CPI less 1 percent for 20 years, other than the averaging out of the payments, was the most popular. That would save an enormous amount of money. In the 20th year it would save $85 billion; and of course at that time you return to giving the increases on the basis of the CPI. The savings would continue. That would have an enormous impact on making the social security system sound.

I say all these things as a perfectly reasonable approach; people do not object strongly to the idea of making changes.

As a matter of fact, Mr. Chairman, as I explained social security and the changes that would have to be made to make the system whole, people by and large were somewhat relieved. And I went into some real hornets' nests with my talks. I did not choose the people; I went throughout the State.

I went to one hearing which really was dominated by an element that wanted no changes whatsoever. I was questioned by the State head of the AFL-CIO at one of the meetings, and by other people who felt that the social security benefits should be expanded, not in any way contracted or moderated over a period of years.

The **Chairman**. Were they aware that Mr. Kirkland is a member of the Commission and with one exception supported the Commission and joined the Commission's efforts?

Senator **Boschwitz**. Yes, they were, and there was very broad support for the Commission.

Mr. Chairman, the change that I suggested for the bend points was to have them indexed for a 4-year period, and it was very popular and was very quickly accepted.

There are some mistakes I notice on my printed sheet here, but if you look at the top line you will see that increasing the number of quarters to qualify for social security was a very broadly accepted idea. Particularly, raising it to 60 quarters would save substantial amounts of money.

I also would be supportive of the idea of eliminating foreigners from receiving social security benefits, along the line that Senator Lugar has suggested, and eliminating the rule that the 5 lowest years should be included in computing social security. In the hearings which I held in Minnesota, I explained also at some length that when I started working in 1956, Mr. Chairman, my first salary was $4,000, and that that was the average wage in the country in that year. If I retire in the year 2000, and the average wage at that time is $20,000, the $4,000 would be increased to $20,000 for purposes of figuring my average wage.

People were surprised by that, and people were not particularly offended when I suggested that that not be a totally indexed matter. Perhaps my $4,000 should not rise to $20,000; perhaps it should rise to only $16,000, and that index, instead of being 100 percent, could be 80 percent.

Those kinds of structural changes certainly could make enormous differences and make social security a very sound system.

So in short, Mr. Chairman, I found that people were entirely reasonable, and people were not offended, and people indeed were somewhat relieved at the idea that social security could be controlled in reasonable ways: by increasing the number of quarters that people have to work, by reducing the COLA by just 1 percent a year or by averaging the COLA, by changing the bend points and by changing the age. So I think that social security is a controllable program that we will be able to continue for ourselves in our lifetime and for our children and grandchildren.

I found, too, that the retired were very interested in preserving the program for their children and grandchildren, and they were willing to make the reasonable changes that were necessary, and to go beyond the scope of the Commission's report.

Thank you, Mr. Chairman.

The **Chairman**. Well, thank you, Senator. And I think you are right—I really believe that there is much more support among the retired and others for real reform than the Commission was able to come up with.

Politics being what it is—I am not talking about any partisan politics, just the politics of social security—has encouraged members of the Commission to try to reach some agreement; not the agreement that you would have drafted or others would have drafted, but, as indicated by those covered in your survey, there are some real reforms that have strong support.

Some of those are incorporated in the Commission's report—delaying of the COLA had strong support; covering Federal employees had strong support; taxing benefits had strong support. In fact, again, it was stronger, as I read your table, among the retired by a large margin—more support for taxing benefits than for those who are nonretired.

Senator BOSCHWITZ. Isn't that interesting?

The CHAIRMAN. It is interesting, because the people who are being affected, by 69 to 29 percent said, "OK," and for those who haven't retired yet it was only 51 to 48.

Senator BOSCHWITZ. Well, Mr. Chairman, I tried to be very straightforward in assessing the Commission's proposals. I pointed out that the $20,000 and $25,000 were not indexed and that by the time the young people retired that $20,000 and $25,000 would not be as meaningful an outside income.

The CHAIRMAN. Maybe the nonretired felt that by the time they retired, as you say, $25,000 or $20,000 would cover, instead of 11 percent today, maybe 50 percent. That can always be indexed or somehow changed, however. Congress does meet on an annual basis.

Senator BOSCHWITZ. Sure. I think it should be indexed, and that is not the most important reform that we need.

But the bottom line, Mr. Chairman is that I find that many of my colleagues are just terribly afraid of this issue—unwilling to tackle it, thinking that their whole political career is being put in jeopardy if they even murmer the words "social security."

I find, in my State, that people are very reasonable about it, that people are relieved that they will be able to continue to receive their social security, that reasonable changes can be made that will not undermine their benefits or the benefits of their children and grandchildren, and that the system can be preserved.

And so I would hope that some of my colleagues will not be afraid of the issue as they might otherwise be.

The CHAIRMAN. In fact, your colleagues are even going to be able to participate in social security. Starting January 1, 1984, the President, the Vice President, Members of Congress, and others will be covered, if the Commission report is adopted; so they will have a real interest in the program.

Senator BOSCHWITZ. Perhaps that's what is necessary, that we cover Members of Congress.

The CHAIRMAN. It may amount to a tax reduction for most Members, but if the people want us in we certainly don't want to——

Senator BOSCHWITZ. Oh, absolutely. There is no question that that was extraordinarily popular.

The CHAIRMAN. Right.

Senator BOSCHWITZ. So again I say that inclusion of Federal employees is probably not a real savings to the Federal Government and may be even a detriment.

The CHAIRMAN. Rudy, we appreciate very much your taking the time to express your views. I can just imagine what this hearing room would be like had we not had some agreement by the Commission. It would be standing room only; you would have had a very bitter fight over social security. As it is now, we are going to hear all the witnesses carefully, weigh their views, and then report out a package.

Senator BOSCHWITZ. I hope that package goes beyond the Commission. I encourage you to see that S. 76 does indeed pass.

And I want to compliment you, Mr. Chairman, and the staff for the help that they have given me, particularly the young lady behind you, Ms. Weaver. I appreciate the help that she has given me over a period of time. You have a very good staff on this committee, and it has been helpful to me.

It has been especially helpful to me in coming up with reasonable responses to social security and its problems, and those reasonable responses have been very much accepted by my constituents.

As a matter of fact, I have been the subject of a number of very favorable editorials because I have been willing to speak out on it. Whether or not that will translate into votes at the polls, we'll see later on.

The CHAIRMAN. Well, with the success that you have had I wonder if you would like to take on a consultancy on withholding on interest and dividend income?

Senator BOSCHWITZ. Well, Mr. Chairman, I have written to my constituents about that as well, and I have explained to them the position that you take. Again, I have consulted with your staff, which I have found very able, and have sought to justify the withholding of interest and dividends. I have asked the 100,000 or 130,000 people who have written to me—I am having a little trouble getting back to them all—to send an enclosed postcard back to me.

The enclosed postcard says, "Now that I understand withholding on interest and dividends a little better, it is not as bad," check that; or the other one, "Stop fooling around, Rudy, just repeal it." In the event that of the 130,000, more than 50 percent continue to say repeal it, Mr. Chairman, I shall certainly take their opinions seriously. I have never received that much mail about anything.

The CHAIRMAN. No, it's just a little grassroots campaign, you understand, organized by rich bankers.

Senator BOSCHWITZ. I understand that bankers oppose it.

The CHAIRMAN. They have thick packs and a lot of muscle, but they don't have the votes yet.

Senator BOSCHWITZ. I understand that they certainly admire you, too, Mr. Chairman, for the various positions you have taken on taxation of banks.

The CHAIRMAN. Yes, my loan was called; but otherwise I'm in good shape. [Laughter.]

Senator BOSCHWITZ. Your loan's been called? [Laughter.]

Thank you very much, Mr. Chairman.

The CHAIRMAN. Let's see now. We may be ahead of schedule here. That doesn't happen very often.

I don't think Mr. Devine has arrived, has he? [No response.]

Are there any other witnesses who were supposed to be here this afternoon? [No response.]

Well, we will just stand in recess, awaiting the arrival of Donald J. Devine, Director of Office of Personnel Management.

He will be the final witness this morning. Then starting at 1:00 we will have Mr. Ray Denison of the AFL-CIO and Mr. Howard Young of the UAW. Then we will have a panel representing the views of Federal employees and another panel representing the views of the National Organization of Women, WEAL, and the National Women's Law Center.

We stand in recess until the arrival of Mr. Devine.

[Whereupon, at 10:30 a.m., the hearing was recessed.]

AFTER RECESS

The CHAIRMAN. Mr. Devine, we are happy to have you as a witness. We will have a panel of witnesses this afternoon representing Federal employees, for the most part, who will be asking us about commitments on a supplemental civil service retirement program. That is going to be the primary matter of concern. You may proceed in any way you wish.

STATEMENT OF HON. DONALD J. DEVINE, DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT, WASHINGTON, D.C.

Mr. DEVINE. Thank you very much, Senator. It is a pleasure to be here to discuss the question of covering new Federal employees under social security.

I am accompanied today by Mr. James W. Morrison, Jr., Associate Director for Compensation.

The National Commission on social security reform has recommended that Federal employees who are hired after January 1, 1984, be covered under social security rather than the current civil service retirement system. This administration supports the recommendation, as a part of the bipartisan solution.

There has been much concern expressed that social security alone will not provide adequate retirement benefits for those new employees. However, the administration will propose establishing a new staff retirement plan to supplement social security coverage.

While the details of the new staff plan are still being discussed within the executive branch, the Office of Personnel Management is pursuing an approach that would be modeled on private sector practices.

Agencies and their employees covered under social security and this new staff plan would each contribute 11 percent of salary for such combined coverage, with this contribution going first to pay the OASDI tax for social security, and the balance going to the staff plan. Agencies would be required to pay a matching amount.

This new plan, when combined with social security benefits, will provide the sort of comprehensive retirement coverage that Federal employees and their dependents need and deserve. As with the current civil service retirement system, new Federal employees will not be vested for 5 years.

While I realize that the reform of the civil service retirement system is not within the direct purview of this committee, I think it would be helpful to you in understanding our approach to the design of the new supplemental plan if I could present some other recommendations we are making.

I would like to take some of your time to show what we are trying to do for the supplemental plan and also, more broadly, for our whole personnel system. I will try not to take any more of your time than necessary, but I do think that there are some essential facts about the full personnel system that put our recommendations in context.

[Showing of charts:]

The Worldwide Problem With Government

"Nobody believes anymore that government delivers."

—*Peter F. Drucker*

"Whatever overall strategy has been adopted by individual member governments, **a general demand for increased efficiency in the use of resources and improved levels of productivity in the public sector** is now fairly widespread."

—*Official report on the 1981 Rome*
meeting of civil service heads of
the Organization for Economic
Cooperation and Development

Mr. **Devine**. What we are trying to do at the Office of Personnel Management is to fulfill the civil service reform ideal during this, our centennial year—the 100th anniversary of the adoption of the Civil Service.

We start off with an assumption that there is a worldwide problem with government. As Peter Drucker says, "Nobody believes anymore that government delivers."

At the meeting of heads of civil service in Europe in 1981, we found that in every country, from the Socialist-Communist Coalition in France to literally every country of the world, they find that increased productivity and efficiency in personnel operations have become a widespread demand.

[Change of charts:]

Americans Believe Their Government Doesn’t Work

More than two-thirds of Americans believe that:

—government employees work less hard than other Americans
—government is over-staffed and bloated
—most tax money is wasted by government employees.

In a poll asking which occupations were most and least efficient, government bureaucracy ranked **last of 26 types of work tested.**

Even most government employees personally believe:

—they will **not** be held responsible for unsatisfactory work.

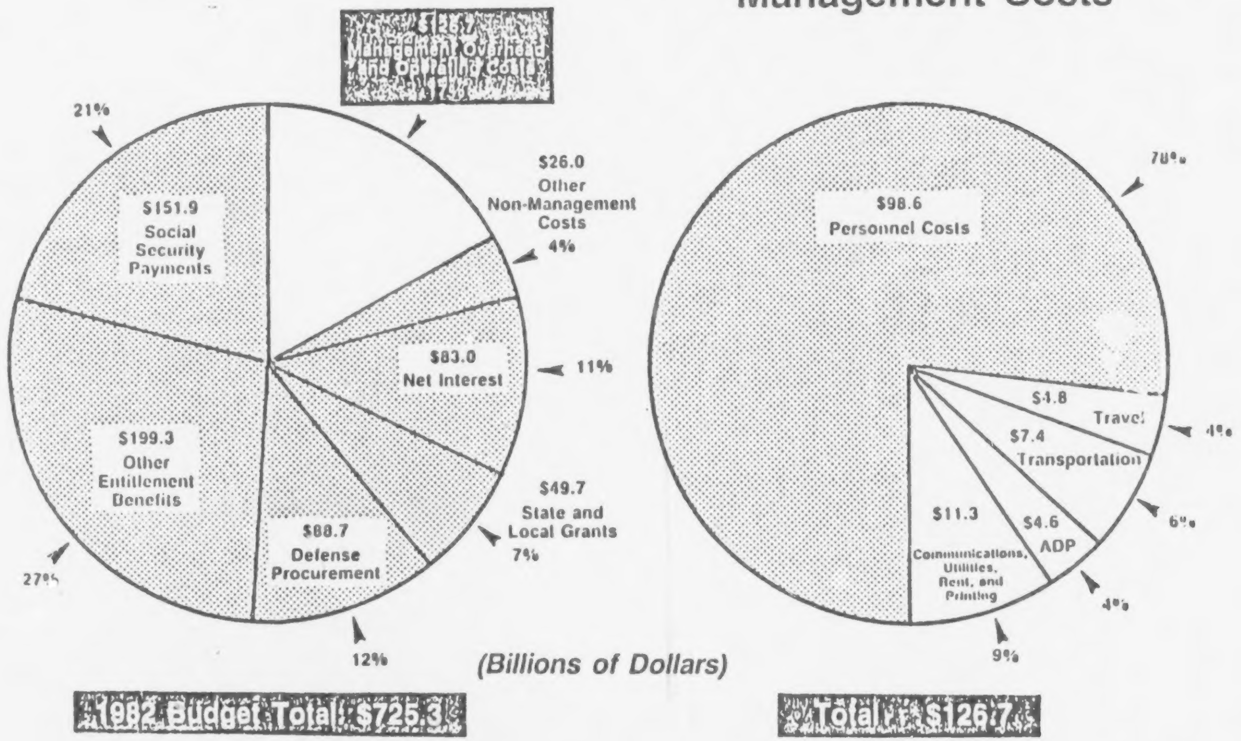
Mr. DEVINE. Clearly, the polls show that people don't believe that this government system works. Overwhelmingly, whoever the poll-taker is, however the question is raised, people are concerned about government work.

Even our own employees, according to a poll taken 2 years ago, say that they don't believe that they will be held responsible for unproductive work.

[Change of charts:]

Management Accounts for 17% of the Budget

...Distribution of Management Costs



(Billions of Dollars)

Mr. **Devine**. Of the total budget, OMB estimates that 17 percent is accounted for by management, and of that about three-quarters is accounted for by personnel costs. There is no way we can talk about running government efficiently if we don't take into account the costs and the mechanisms used for personnel.

[Change of charts:]

Civil Service Reform Act

GOAL: Apply business practices to the Federal government.

How? Establish and apply **Merit Principles for Performance** (5 U.S.C. 2301(b)).

1. "**Recruitment,** selection and advancement should be determined solely on the basis of relative **ability,** knowledge and skills."

2. "Appropriate **incentives** and recognition should be provided for excellence in **performance.**"

3. "Employees should be **retained** on the basis of their **performance.**"

4. "Employees should be provided effective education and **training** (that) would result in better organizational and **individual performance.**"

Accomplishments:
1. Performance Appraisal
2. Employee discipline
3. SES flexibility
4. Merit Pay for managers

The Civil Service Reform Act passed by the previous administration unites two Presidents, two administrations, two Directors of the Office of Personnel Management, in the belief that performance has to become the central part of our personnel system, that we have to hire and advance people based on their ability, that we have to provide incentives for excellence in performance, that we have to retain people on the basis of their performance, and that we have to train and upgrade people's skills based on their performance and their potential performance.

Although passed under the last administration, we fully implemented a performance appraisal system by October 1, 1981, and we also made some changes in employee disciplinary procedures. We have a Senior Executive Service that gives management more flexibility and allows bonuses to be paid for good performance by our senior executives; and our merit-pay managers have been brought under a pay-for-performance system.

[Change of charts:]

Problems Remaining After CSRA

Many **incentives** in the system still **deter initiative and productive work.**

—Except for those now under the "merit pay" system, pay increases are still given to employees almost without regard to performance.

—Decisions to lay off personnel are made with very little consideration given to how well they perform.

—Incentives are given for employees to retire, rather than work.

—Other incentives produce too much time off for various types of leave, and too much overtime and premium pay.

—Long-term incentives are for staff, rather than line.

—Decisions are delayed by complex processes.

The result is a personnel system that **straitjackets initiative,** and stands in the way of sensible management and administration. But the important point is that **the system is the problem,** not the **people** who work for the government.

Mr. Devine. However, these reforms, except for the performance appraisal process itself, have just covered a small part of the whole Federal work force.

Except, again, for the performance appraisal systems, and they have been given very little consequence in our personnel system, it has not extended down through the vast majority of people working for the Government.

Mr. Devine. What we want to do is to expand the principles of the Civil Service Reform Act to the whole work force—or at least, at this point, to the white-collar work force.

We find today, still, there are many problems remaining after the Civil Service Reform Act—many disincentives that deter initiative and productive work. Except for those in the Senior Executive Service, there is very little pay for performance, and within-grade increases are given to all basically without regard to how well they perform. We lay off personnel, basically, with very little consideration to how well they have performed.

We have tremendously large incentives in this system to retire rather than to work. Other incentives produce too much time off. We have long-term incentives for staff rather than line work; we have complex decisionmaking processes in the Government. The result is that we still have a system that tends to straitjacket initiative and stands in the way of sensible management and administration. Importantly, the problem is the system and not the people.

We are going to administratively propose, although this is still under consideration for final Presidential signature, to take a pay-for-performance system and apply that to the whole white-collar general schedule system.

We are also talking about changing our reduction-in-force procedures so that we give more emphasis to performance over seniority.

But what I would like to talk about most today is the very large disincentive that we have in the Federal Government to keep people working during their most productive years.

Our average executive retires at about age 58. A study that we have seen of the private sector suggests the executives reach their top-level position between ages 60 and 61. We are retiring our best people about 2 years before they reach their maximum potential use for the Government, after many years of investment, of training, and the many years of expertise that they have.

It is this management concern and the financial shape of our present retirement system that has to be seen as part of our general approach to an add-on staff plan to social security, as well as reforms in our present retirement system.

I would like to present some basic facts about our retirement system:

[Change of charts:]

Basic Facts on the Civil Service Retirement System

Size

—1.8 million Federal retirees and survivors
—2.7 million Federal employees
  - 75 per cent of current workers will ultimately draw pensions

—$34.6 billion to retirement fund (projected FY 1983)
  - $20.8 billion contributed by Federal government (plus $9.3 billion interest)
  - $4.2 billion contributed by Federal employees (only 12 per cent of total cost)

—Average civil service pension: $12,480 per year

Growth (1960-1981)

—Civil Service Retirement outlays	1,891%
—Social Security outlays	1,209%
—Federal budget outlays	568%
—Gross National Product	478%
—Inflation	208%

Funding Changes

—Growth in employee contributions	437%
—Growth in Government contributions	2,351%

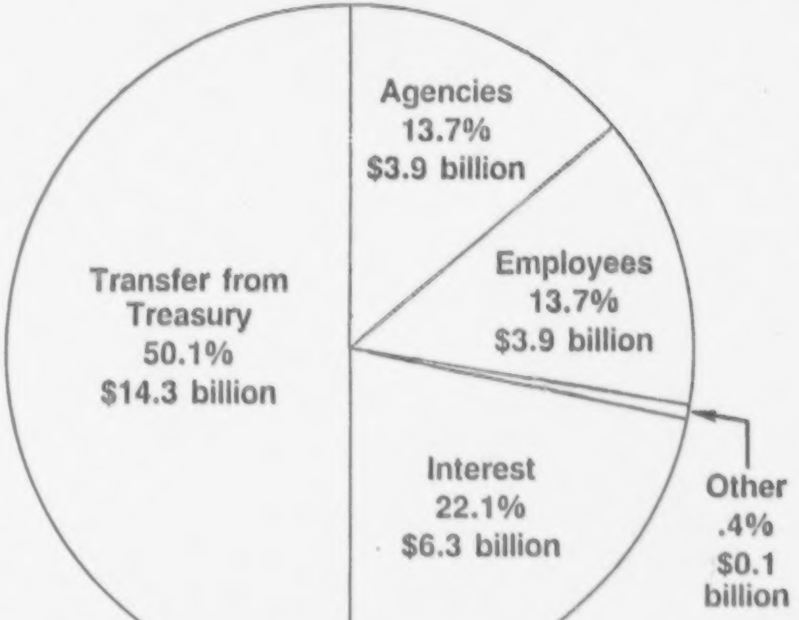
Total cost to the Federal government makes CSRS the **fourth largest entitlement** program.

About 1.8 million Federal retirees and survivors are covered under the system right now; we have 2.7 million Federal employees, 75 percent of whom we estimate will ultimately draw pensions; we estimate a $34.6 billion in retirement fund income in fiscal year 1983, $20.8 billion of which will be contributed by the Federal Government, not including $9 billion in interest; $4.2 billion will be contributed by Federal employees in 1983.

[Change of charts:]

Sources of Civil Service Retirement Fund

(FY 1981)



Total: $28.5 billion

Mr. DEVINE. I'll come back to some of those other figures later.

Today, employees pay 7 percent of their salary, and their agencies pay 7 percent in addition to their salaries.

Most Federal employees—and I have probably met more of them face-to-face than any other person in the Government, as part of my job—think that their 7-percent contribution and their agency's contribution fully supports this system.

As can be clearly seen here, in 1981, the last time for which we have closed our books fully on this system, 13.7 percent of the income for the retirement system comes from the employees' contribution and another 13.7 percent from their agency. Together these contributions only pay about 28 percent of the total income of this system.

You can see from this very large slice on this side, through an OPM account I can transfer from the Treasury, after going through the appropriations process, a payment from the Treasury, which most people are concerned about doing in social security; we've already done that since 1969 in our system.

Today, 50 percent of the funding of the system, or $14.3 billion in 1981, comes from a transfer from the Treasury. We take this amount from the Treasury and this from the agencies. About 64 percent of the present funding of the system comes from direct payments from the Government. Another 22 percent comes from interest, which also comes from the Government.

[Change of charts:]

Mr. DEVINE. We have a system which is already funded through a mechanism that in one sense leaves us no problem, because the draw from the Treasury will make up the difference that we don't have funded, but in another sense is a great draw on the Treasury and something that we have to be concerned about in the present economic environment.

The average pension for our employees is about $12,480 a year, compared to about $4,800 for social security and compared to an average family income of working individuals in the United States of about $15,000 per year.

This system has grown very dramatically over time. Between 1960 and 1981, total outlays have grown about 1900 percent, compared to about 1200 percent for social security. You can see that our system has been increasing in expenditures at a much higher rate than social security and certainly than other things like budget outlays, GNP, and inflation.

Most importantly, the growth in Government contributions has been at a much more dramatic rate than it has for employee contributions; where employee contributions have increased about 437 percent, the Government contribution has grown by 2,351 percent over this period of time, or about double the growth in social security outlays.

[Change of charts:]

Civil Service Retirement System

The present system contains strong incentives to retire at an early age.

—Nearly **half of all Federal employees retire before age 60,** compared with only **7 per cent** in the private sector.

In FY 1983, Federal government retirement costs will be **twice** the private sector average. How generous are the benefits?

—Federal pensions replace an average of **56 per cent** of an employee's pretax salary, while a typical private sector pension replaces an average of only about **30 per cent.**

—An average Federal employee who retired in 1972 would have an annual pension almost **one-quarter higher** than an average private sector friend retiring in the same year with the same pension. (Assumes most pessimistic assumptions.)

—Only **3 per cent** of private sector retirees have pensions that guarantee cost-of-living increases. **All Federal employees** do.

Mr. DEVINE. These outlays make this program the fourth largest entitlement program in government.

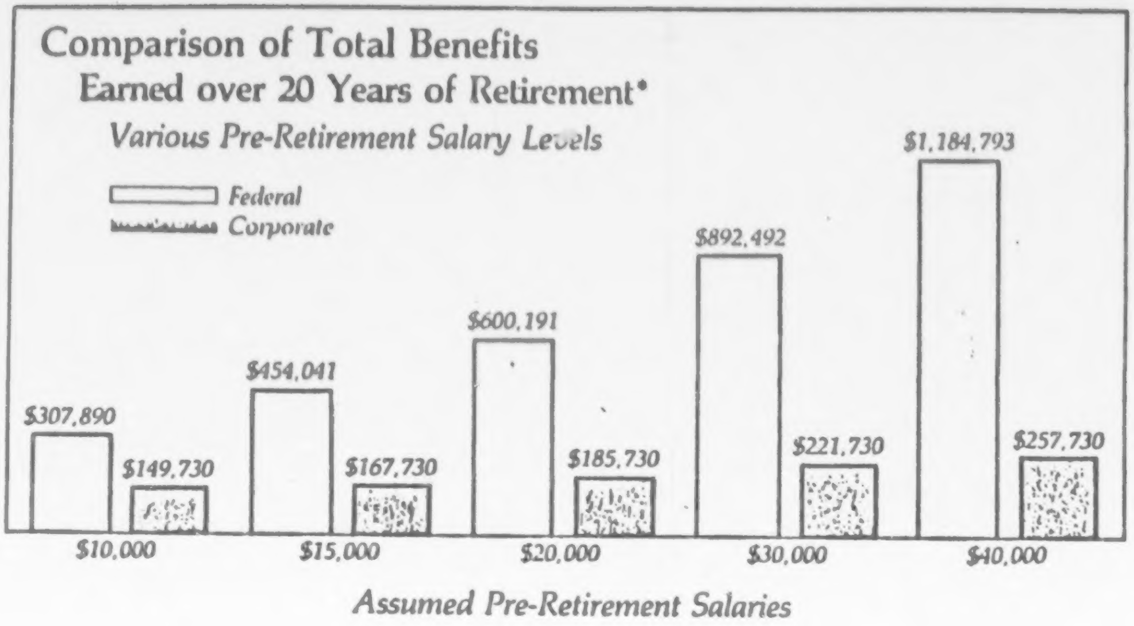
As I mentioned, the present system has strong incentives for someone to retire at an early age. Almost half of Federal employees retire before age 60, compared with only 7 percent in the private sector that retire before age 60. We will spend about twice what the private sector firm does.

We replace about 56 percent of an employee's pretax salary, compared to private sector pension plans which average about 30 percent. And I would like to mention that that figure does not include the 60 percent of the population that does not have any employer provided add-on program.

Even in the case of a Federal employee and a private sector employee who both retire at the same time on the same initial pension—the Federal employee will end up with a much higher pension than would the person in the private sector—a most pessimistic assumption being that it would be one-quarter higher after 10 years if two people, say, retired in 1972 and you compared their benefits through 1982. Under other assumptions, the difference can go up much higher.

The reason for that is, only 3 percent of private sector retirees have their pensions indexed to the cost of living. All Federal employees do.

[Change of charts:]



*based on an individual retiring in 1974 at age 55

Mr. DEVINE. I have some figures here on average pay-outs, comparing Federal employees to private sector individuals—first retiring at age 55, and on the next chart we will look at them both retiring at age 65.

We estimate that over 20 years of retirement, with a preretirement salary of $10,000, the average private sector individual over those 20 years would collect about $150,000, compared to about $300,000 collected by the Federal retiree. And as you can see, that gap goes up dramatically as income level increases. At a $40,000 preretirement salary at age 55, the private sector individual over those 20 years of retirement would collect about $257,000 compared to a payout for the Federal retiree of $1,184,793—a very substantial difference.

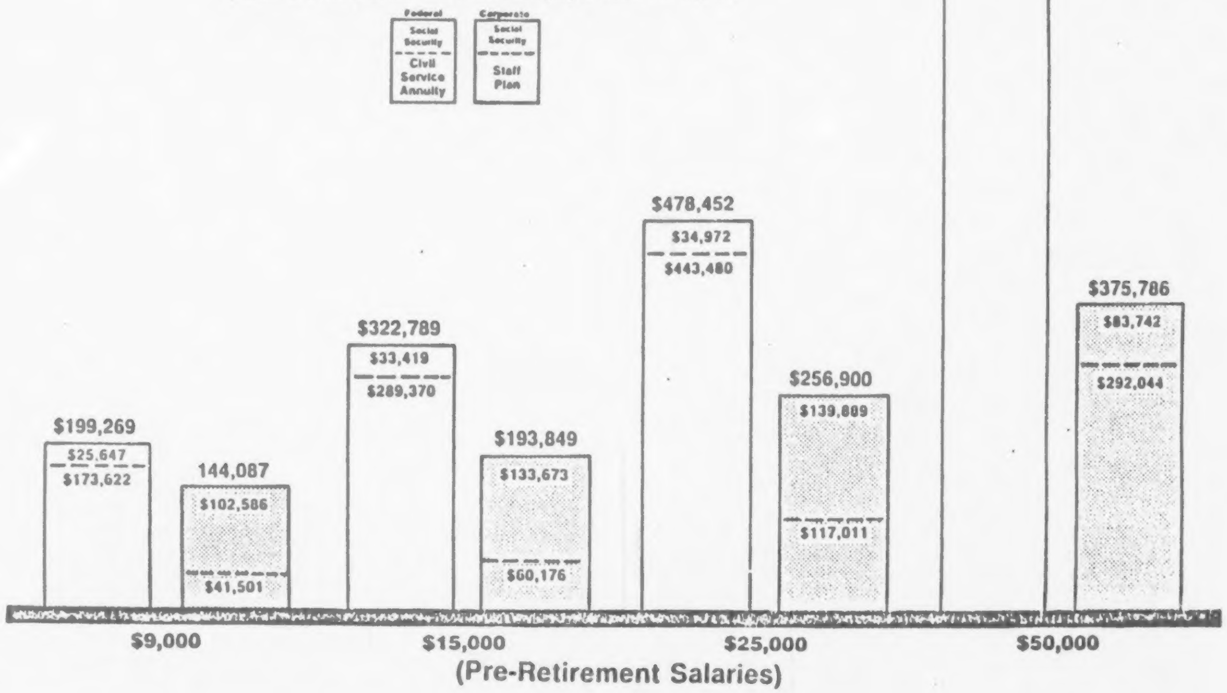
Of course that comparison is somewhat unreal, because so few people in the private sector retire at age 55.

[Change of charts:]

Comparison of Total Benefits Received over 20 Years of Retirement

Various Pre-Retirement Salary Levels

(Assumes Private Sector and Federal Employee Retires at Age 65)



Mr. **Devine**. This second set of figures compares two individuals retiring at age 65. It takes the typical situation in the Federal Government where an individual would work to age 55 for us and then go out and work 10 years under social security. Between 75 and 80 percent, depending on the estimate that you use, of our employees will also collect social security.

For the comparison, we take into account the fact that 75 percent will receive social security; we take into account that our pensions are taxed whereas social security is not, and we take into account our most pessimistic assumptions.

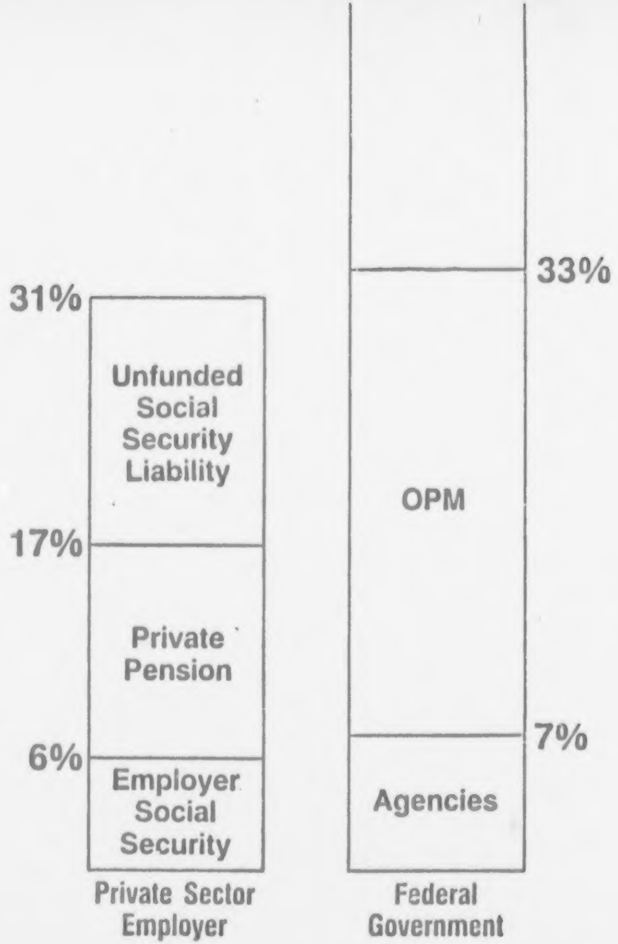
At the lowest income level of $9,000, again over a 20-year retirement period, the average person in the private sector—of those, again, that have private pensions, and 60 percent do not—would receive $144,000, compared to $199,000 for the Federal retiree, or about $50,000 more for the Federal retiree.

Even if we discount the social security part, which is shown up here separately at $25,000, it would still mean $25,000 more over that 20-year period. And again, this dramatically increases as one goes up the income scale. At a preretirement salary of $50,000, retiring at age 65, a private sector individual would, over 20 years, get about $375,000 compared to almost $900,000 for the Federal retiree.

[Change of charts:]

Employer Contribution to Retirement Systems

(Per Cent of Payroll)



Mr. DEVINE. Looking at it as an employer must, as I have to do as personnel manager for the Government, you see that a private sector employer pays roughly 6 percent of the payroll expenses for each employee for social security retirement contributions, considering the scheduled increase in the tax rate in 1988.

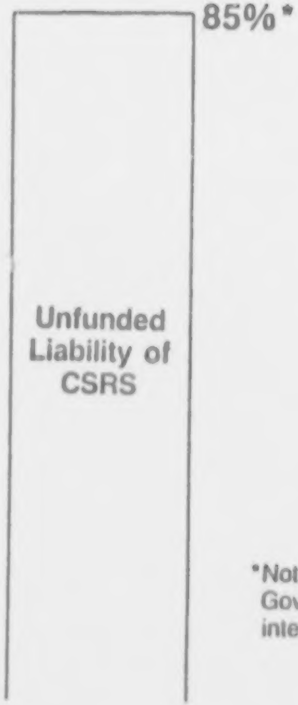
On top of that—again, only for firms that have private pension plans—the private plans add an average of 11 percent on top of the social security contribution for a total contribution of about 17 percent of payroll. If we included the whole population, there would be only about a 3-percent or 2-percent addition there, taking into account the fact that 60 percent don't have any private pension plan. If we took the Fortune 500, it would only bring that up from 17 to 19 percent.

Any way you look at it, about 17 percent of payroll is a generous estimate of what the private sector does as an employer contribution.

On the Federal Government side, the agencies put in 7 percent of payroll. OPM, through our draw on the Treasury, puts in another 26 percent of payroll on top of that, for a cost of 33 percent of payroll to fund the present benefits and set a modest amount aside in the fund itself—33 percent against 17 percent; just about double what a private sector employer pays.

Even if we included the employer share of the unfunded liability of social security, that would still only raise the private sector cost up to 31 percent of payroll.

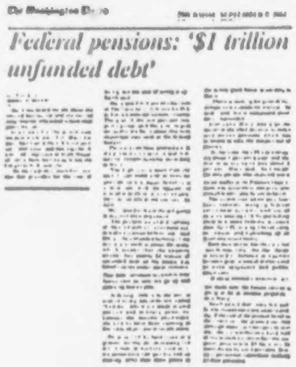
[Change of charts:]



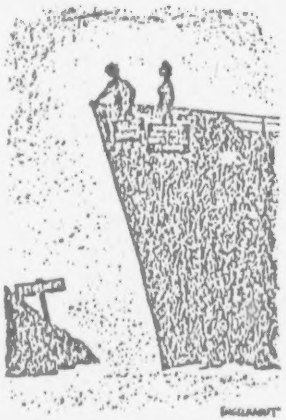
*Not including Government paid interest.

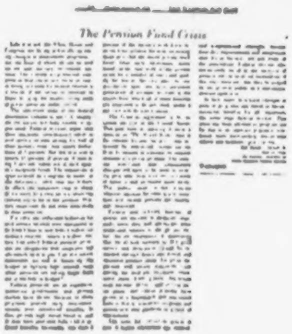
Mr. DEVINE. But if we took our unfunded liability, that would take us up to an incredible 85 percent of current payroll, which is our estimate of what it would take to amortize the unfunded liability for our system over 40 years, not including Government interest.

[Change of charts:]

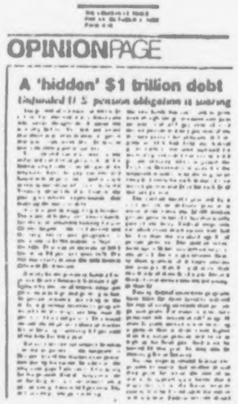


Federal pensions: '$1 trillion unfunded debt'



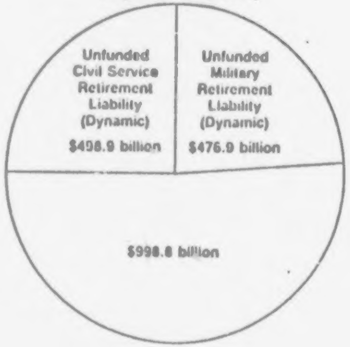


The Pension Fund Crisis

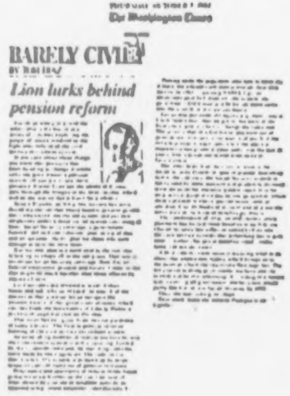


OPINIONPAGE

A 'hidden' $1 trillion debt



NATIONAL DEBT
(September 30, 1981)



BARELY CIVIL

Lion lurks behind pension reform

Mr. Devine. Another way to look at this is to look at this circle representing the national debt. Below this line it represents, as of the end of fiscal year 1981, the almost $1 trillion thing we call the national debt.

If we took the unfunded liability of the civil service retirement system, which is almost $500 billion, we would add one-half again to what the total national debt is.

If we include the unfunded liability of the military retirement system, these two unfunded liabilities would double the total national debt.

We have a large problem of unfunded liability in this system, and one that the private sector is becoming aware of.

[Change of charts:]

Federal Pay

The Federal comparability survey shows that Federal employees are **underpaid** by more than 18 per cent, BUT:

—A reasonable weighting of the survey shows Federal base wages **higher** than in the private sector and annual pay raises have been more substantial.

—According to the Chamber of Commerce:

- In 1967, Federal pay was 25 per cent above state and local salaries. Today, it is **42 per cent** higher.
- During the same period, the Federal pay premium over manufacturing wages went up from 35 per cent to **52 per cent**.

—Federal **applicant-to-hire ratios are very high**. Job seekers recognize the attractiveness of Federal employment.

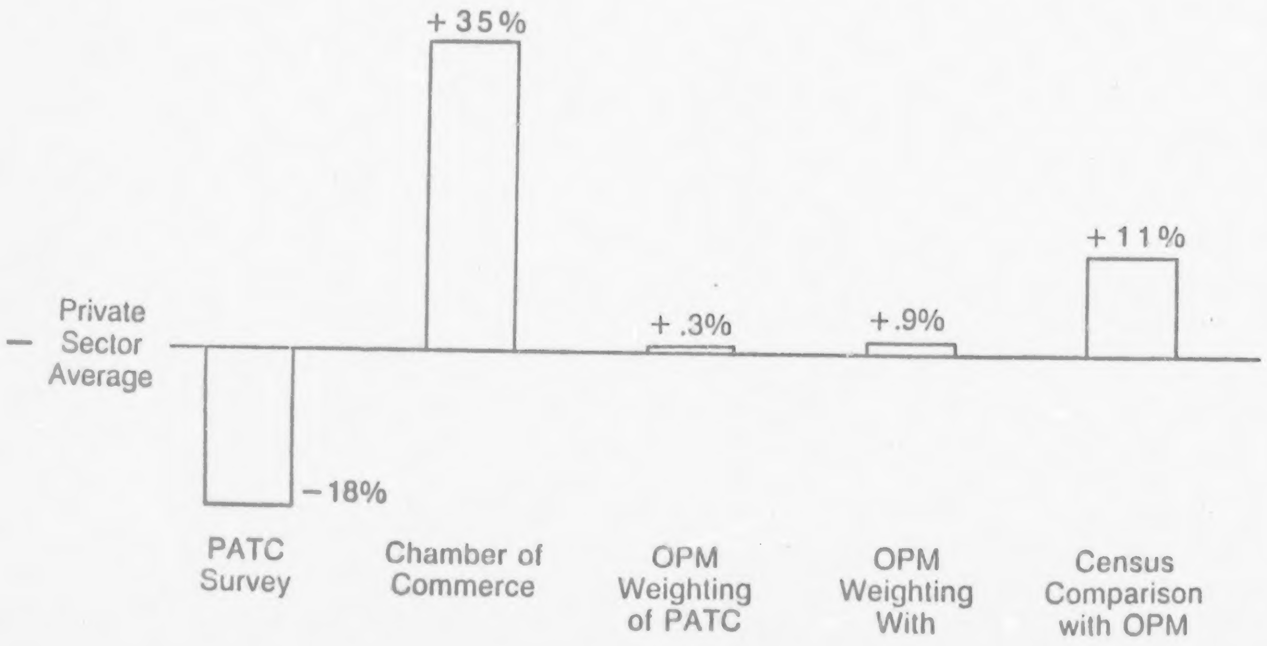
- Overall, the ratio is **9.3 to 1**.
- For entry level professional and administrative positions, the ratio is **22 to 1**.
- For senior level positions, it is **30 to 1**.

Mr. DEVINE. Well, it's been argued that Federal pay has been historically lower, and that's why we have generous benefits. And I believe that at one time that was the case.

A Chamber of Commerce study shows that the relationship between private and Federal salaries has grown to the advantage of the Federal Government employee over this period of time, so I suspect that at one time that indeed was the case.

[Change of charts:]

Federal Government Employee Pay Compared With Private Sector



Mr. DEVINE. We do a study in the Federal Government called the PATC, or PatC survey—professional, administrative, technical, and clerical survey—which shows that Federal employees receive 18 percent less than those in the private sector.

In my previous position I was a professor of political science; I taught surveying. I would stake my professional reputation on the fact that this is not a valid survey. It does not take into account relevant differences between the private and the public sectors, and in our report to the President and in the President's report to Congress we will comment more fully on the problems with that survey in adequately measuring Federal pay.

I don't believe the Chamber of Commerce survey is any more valid than the PATC survey. It shows that Federal employees are overpaid by 35 percent relative to the private sector. That isn't true either, because it doesn't take into account the different population mix that we have in the Federal Government, the fact that we have a large number of administrative and clerical positions, and that we don't have things like agriculture to any great extent, or mining, and so forth.

We have done three things at OPM to try to estimate—we have actually done more, but three things that I would like to comment on here—to estimate the difference, the true difference, between public and private sector pay.

Our minimum estimate in weighting the existing PATC survey, with all of its difficulties, shows that we overpay about three-tenths of 1 percent, or for all intents and purposes that we pay about equal to the private sector.

If we add in State and local government, which gives us our best comparisons of jobs, but which we are forbidden under our title 5, United States Code to do, that would make it about 1-percent above the private sector.

The last is an interesting survey that we did. We took the census population figures on occupation and salary, and we matched them up against our central personnel data file. And going occupation-by-occupation, and comparing equivalent backgrounds in education, equivalent lengths of service, we came up with an overall estimate of 11-percent above the private sector.

[Change of charts:]

Mr. DEVINE. We also have very high applicant-to-hire ratios, which suggests that there is something attractive about Federal employment. These ratios have not changed dramatically over the past few years, indicating that economic conditions are not the most relevant factor.

Our overall ratio is 9.3 people seeking each job. For entry-level professional and administrative positions, we have 22 people seeking each job, for senior-level positions, 30 people seeking each job. Our overall ratio of inquiries-to-placement is 61 to 1.

As we look at other benefits, we don't find the picture radically different either. We are more generous on vacation policy; where only about 2 percent of private sector workers get 3 or more weeks of vacation after 3 years, all Federal employees get 4 weeks after 3 years. We give 13 days per year of sick leave, which is generous relative to the private sector. Our level of health benefits we believe is similar and perhaps better. And even in the Worth study of very healthy Fortune-500-type companies, they say that we pay at least 90 percent of the benefits.

Job security is very high. The Department of Labor reports that unemployment is lowest among Federal employees as an employment category, and actually unemployment has gone down during the recession for Federal employees.

[Change of charts:]

The New York Times

THE NEW YORK TIMES, SUNDAY, AUGUST 15, 1982

300,000 in White-Collar Jobs Took Cuts, a Survey Reports

WASHINGTON, Aug 14 (UPI) — The salaries of more than 300,000 supervisory and managerial workers were cut or frozen in the first half of 1982, a private research report says.

The report Friday added that other companies had delayed salary reviews or cut vacation time, holiday pay or health care benefits.

At 101 companies, other white-collar supervisory employees were laid off in the period the report said.

The report said more than half the salary cuts came in the steel and machinery manufacturing industries. The analysis, by the Bureau of National Affairs, reported that nearly 40 percent of the 101 concerns had also laid off hourly employees, either with the white-collar workers or before they were laid off.

Cutbacks in salaries of work force were often connected with concessionary bargaining, the report said, adding, "While some companies cut back their white-collar force in preparation for union 'givebacks,' others reduced the benefits of white-collar employees after their unions made concessions under 'equality of sacrifice' agreements."

The researchers reported that 35 companies imposed salary freezes on more than 250,000 salaried employees and that salary reductions of 2 percent to 35 percent were imposed on more than 50,000 managerial, supervisory or professional employees by 33 concerns.

These employees were generally exempt from receiving overtime pay.

The report said that while most companies imposed across-the-board cuts or froze salaries, some other moves were made.

It said that at the Buffalo-based Roblin Industries, which deals with steel, housing and shopping carts, employees earning less than $15,000 a year took a 5 percent cut, those over $15,000 received a 15 percent reduction, and the company's president, Daniel [illegible], cut his own salary 33 percent.

At the National Steel Corporation in Pittsburgh, the report said, top executives received a 25 percent salary cut while salaries of 7,000 others were frozen.

The report added that, despite the number of white-collar workers affected by the cutbacks, the moves had not brought on a dramatic increase in union organizational drives.

More Workers in U.S. Are College Graduates

WASHINGTON, Aug 14 (UPI) — Workers with at least four years of college are increasing their share of the American labor force, while the proportion with less than a high school education has been cut almost in half since 1970, the Labor Department says.

The department's Bureau of Labor Statistics said Tuesday that "since 1970, the proportion of college graduates in the labor force 25 to 64 years of age has increased to nearly one-fourth, while the proportion with less than four years of high school has been cut almost in half, to about one-fifth."

The department attributed the increase in the proportion of workers with more education, in large part, to the growth in the population of 25-to 34-year-olds.

"These younger workers had completed more years of formal schooling than older workers," the department said. "Nearly half had completed at least one year of college or more, compared with 30 percent among workers 35 to 64."

The department also said that from 1960 to 1981, "growth in the number and proportion of families where both husband and wife were earners was halted." From 1970 to 1980, the report said, the number of such dual-earner families 18 years of age and older grew by an average of one-half million a year; since then, the number was essentially

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The Washington Post

[illegible] THE WASHINGTON POST

Ailing Bethlehem Steel Eliminates Raises for 22,000 Salaried Employes

By Thomas W. Lippman
Washington Post Staff Writer

Bethlehem Steel Corp., struggling to trim its losses, announced yesterday that it was eliminating all automatic wage increases, reducing holidays and vacations, and cutting health and pension benefits for all 22,000 of its salaried employes.

Bethlehem, the nation's second-largest steel maker, said it expected the annual saving from the cutbacks to be "in excess of $30 million." The company, hurt by the declining demand for steel that has afflicted the entire industry, reported a loss of $113.8 million in the first six months of this year.

Other major steel companies, facing the same dismal earnings picture, already have announced similar packages of reductions. U.S. Steel, the industry leader, has cut about 4,000 salaried workers from its payroll and reduced compensation for those still working.

Donald H. Trautlein, Bethlehem's chairman, told the white-collar workers that cutbacks in their compensation and benefits were necessary because the company had been unable to win any wage or benefit concessions from the United Steelworkers Union, which represents the production workers. The union last month rejected a request to renegotiate its contract.

"We believe that reductions in both salaried and hourly employment costs are critical to our company's well being," Trautlein said in a letter to the salaried workers. "Regrettably, however, recent industry discussions with the United Steelworkers Union have not resulted in any changes in hourly employment costs. Nevertheless we are proceeding with some necessary changes [illegible] affect salaried employes."

[illegible] actions announced yesterday followed cutbacks in the compensation of senior executives and in [illegible] of living increases. The salaried, or nonproduction, employes are not represented by a union, and the company had the right to impose the cutbacks, a spokesman said.

For the workers, the reductions may be painful, but they may be preferable to such alternatives as layoffs and plant closings, industry analysts said. "I bet if you polled the employes, you'd find that they think this kind is preferable to the other choices the company might have made," one expert on corporate compensation plans said.

Bethlehem, a major employer in Baltimore at its Sparrows Point works, said the cutbacks would affect all nonproduction workers from the lowest mail room clerk to senior management.

In the cutbacks, all cost-of-living and other automatic pay increases were eliminated in favor of raises to be distributed based on performance. Paid holidays were reduced from 11 per year to 10. Deductible payments on health insurance were raised. Extra vacation time based on seniority was eliminated.

In addition, Bethlehem said it would reduce the pensions of employes who retire before the age of 62. This move, which runs counter to a nationwide trend to encourage early retirement, baffled independent pension experts and industry analysts, who said it would discourage high-salaried [illegible]

Mr. **Devine**. We see in the private sector many cuts in benefits—300,000 white-collar employees took cuts, this survey reported in the New York Times said. And of course in ailing industries there have been much more dramatic changes.

[Change of charts:]

Federal Pay Proposal

Correcting the imbalance which has grown between the Federal government and all other sectors of society would require:

—**Studying Federal pay** at current rates.

—In the future, rewarding good performers with pay raises and increased retention standing.

—Creating a pool to distribute pay raises, in increasing amounts, to **satisfactory, above satisfactory** and **outstanding** performers.

Such policies are not unusual in the private sector.

—**Pay freezes,** either full or partial, were ordered last year at Alcan Aluminum, Bethlehem Steel, National Steel, U.S. Steel, Caterpillar, Deere, Advanced Micro Devices, Intel, National Semiconductor, Corning Glass, Goodrich, Gulf and Western, and Rexnord.

—Shift towards pay **raises only for well-performed work** is seen in such large corporations as IBM and Pfizer.

Mr. **Devine**. Therefore, the administration is going to propose studying Federal pay at current rates. We think we have to look at our whole pay system. We don't think the present survey we have is an accurate representation of what goes on. We think it has devastating morale implications, also, as it leads Federal employees believe that they are paid less than the private sector.

We are anticipating that we will freeze Federal pay, although we will review economic conditions at the time we make the final decision, during the summer, and we will report to Congress on that. But we are anticipating a freeze in pay.

When we have a freeze in pay, it is even more important that we pay the people who are there for good performance, because even when we talk about freezing pay we have about a 3-percent increase in salary taking place within the present grade structure. We have 10 steps in the grade, and people can get an average of a 3-percent pay increase with each step.

So what we want to do is to make sure that the people that get that 3-percent increase are our good performers so we can keep them during the pay freeze period.

We also want to have performance be the central element when we have to go through any separations through reduction-in-force procedures.

Certainly pay freezes are not unusual in the private sector over the past year. We have seen Alcan Aluminum, Bethlehem Steel, National Steel, U.S. Steel, Caterpillar, Deere, Advanced Microdevices, Intel, National Semiconductor, Corning Glass, Goodrich, Gulf and Western, Rexnord—we have seen many examples in the private sector of pay freezes as they seek to adjust and change their practices.

Even very successful firms such as IBM and Pfizer are going into pay raises only for well-performed work. We think it makes management sense an economic sense, to move in that direction.

[Change of charts:]

CSRS Reform Proposals

Early Retirement

—Permits retirement at age 55 (with 30 years of service)

—Phases in over a 10-year period full actuarial reduction for retirement before age 65

Agency/Employee Contributions

—Increases agency and employee contributions to: 9% in FY 84 and 11% in FY 85

Salary Formula

—After 3 years, returns to use of HIGH FIVE average salary base for annuity computations (rather than current high three)

COLA

—Freeze in FY 84

—FY 85—Current law

—FY 86 and Beyond: 50% of CPI for non-disability annuitants under age 62;
100% of CPI for annuitants age 62 and older

Retirement Computation Formula

—In FY 89, computation formula (only to be implemented if necessary to reduce cost to 22%)

Mr. DEVINE. Therefore, to get to the proposals that we would make under the reforms of the civil service retirement system itself, we would allow retirement at age 55 with 30 years of service, as exists now, but we would ask that anyone retiring before age 65 take a full actuarial reduction in the value of that benefit.

We will grandfather, or grandmother as the case may be, all individuals now age 55 or over. They will not be affected by these changes.

We will also phase in the actuarial reduction over a 10-year period so that there will be a five-tenths of 1 percent reduction per year for people between ages 46 and 54. The full implications of the change would not go into effect unless a person is age 45 or below. At that point we would ask for a 5-percent-per-year reduction for pre-65 retirement, or a total 50-percent reduction. It is the overwhelming practice in private sector to take an actuarial reduction, if you retire before age 65.

We would also propose to move the civil service retirement system back to the principle that the system is to be equally supported by the employee and the Government.

We therefore propose raising the contribution from 7 percent to 9 percent in fiscal year 1984 and to 11 percent in fiscal year 1985 for both the employee and the Government.

After 3 years we would change the high 3-years average salary computation to high 5-years which it was before the present method was adopted.

Consistent with the Government-wide policy on COLA, we are going to propose a freeze on the cost-of-living adjustment for fiscal year 1984 for the full year; we are proposing a full year for the civil service retirement system as opposed to the half-year freeze in social security, because of the difference in payments—as I mentioned, social security has an average pension of about $4,800; ours is almost $12,500—to take account of that difference. After this year we would go back to current law.

The goal would be to have a new system, phased in of course over a long period of time, with the cost and benefit value of 22 percent of payroll.

Now I would like to get to the specific point of this hearing—the extension of social security to Federal employees.

New Federal employees under the proposal, as of January lst, 1984, would be covered under social security.

The CHAIRMAN. I think we know all that. If you could, just comment on the supplemental benefit program.

Mr. DEVINE. All right.

The point for the supplemental benefit program is, between the cost of the social security coverage, which we are counting as the 5.4 percent agency and employee shares, or a total 10.8 percent cost, that that cost plus the cost of the new plan would equal 22 percent, the same as we are proposing under the modified civil service retirement system.

[Change chart:]

Extension of Social Security to Federal Employees

New Federal Employees (as of 1/1/84) will be covered under Social Security.

Separate Civil Service Staff Retirement Plan patterned after private sector to supplement Social Security.

Combined Cost and Benefits of new staff plan and Social Security will equal the cost of the modified Civil Service Program.

Agency and Employee each contribute 5.4 per cent to Social Security and 5.6 per cent to CSRS.

So the basic aim of what we are trying to do is to have both systems, whether social security and the supplemental plan or whether it's the changes in the present retirement system, have a cost equal to 22 percent of payroll.

That is the major goal of what we are trying to do, to have the two systems be as similar as possible taking into account the fact, of course, that one is going to include social security coverage and one isn't. But the thrust of the matter is to have an add-on staff retirement program which would take the 5.6 percent to equal a total 11 percent contribution—the 5.6 part from the employee and the 5.6 part from the Government—to have an 11.2 percent-of-payroll valued plan. That is our goal.

We have been talking of many different ways of achieving that goal, but the basic thrust of what we are doing is to definitely have an add-on retirement plan.

There has been some concern about that, and there is no question that we are going to have an add-on retirement plan that will have a value of 11.2 percent of payroll, which is similar to private sector practices in terms of coverage.

The important thing as I see it is that the two systems have to have some equivalency between them. We can't have one portion of the work force having a retirement program that is radically different from the rest of the population.

So our goal is to have the two systems work in concert to provide approximately the same level of coverage over the very long run. Of course, because the reforms of the current program are not going to apply to people over age 55 and are going to be phased in over 10 years, and the effects of that 10 years will go on for 40 years, there will be those differences during that period.

But the basic structure of the two programs will be similar.

The CHAIRMAN. In your statement you have indicated that there is a substantial unfunded liability. What is that figure?

Mr. DEVINE. $498 billion, or approximately one-half of a trillion dollars.

The CHAIRMAN. Is that a recent development? I don't suppose it is.

Mr. DEVINE. No, sir. It has been happening over a long period of time. However, it has been increasing rapidly over the past few years. It has grown by one-fifth of the value just in the past 2 years.

The CHAIRMAN. There have been a lot of questions raised by Federal employees now in Government service saying that we have a good civil service system and a sick social security system and now we are going to make both systems sick. Is that how you understand the problem?

Mr. DEVINE. No, sir.

The CHAIRMAN. That theirs is almost a terminal case, and social security might be revived?

Mr. DEVINE. Well, I think their comparison is the other way, that they view this system as very healthy. And as I said, in a sense it is. As long as Congress and the Treasury are willing to give me the amount of money necessary to make up the difference on the unfunded liability, there is no problem. But of course that is at a tremendous cost to the taxpayers—$20 billion we are forecasting in 1983.

Both systems are very sick. You can't have an unfunded liability of one-half of a trillion dollars and call the system "healthy." If we had to operate under the ERISA standards that the private sector has to operate under, I would be in jail right now because you are not allowed to have any unfunded liability except for some small periods to try to work out some problems.

We have a tremendous, tremendous obligation. Again, half of the existing national debt is one way to look at it—half again the present national debt.

Neither of these systems is in good shape. They have both been ignored and swept under the rug. When the major liberalizations were made in 1962 and 1969 there was no increase in funding from the employee side to make that system healthy in the way it was envisioned to be healthy.

The CHAIRMAN. Do you see any problem in bringing in Federal judges, Members of Congress, Foreign Service officers or other groups of Federal employees not now covered under social security?

Mr. DEVINE. Our proposal just deals with our direct retirement system. There are some problems with the different plans, and we haven't fully investigated all of those problems.

The CHAIRMAN. All right. Well, I assume, based on the subcommittee action in the House yesterday, that the social security compromise package is moving very quickly. One thing that has been raised, when Congressman Pepper testified, was delaying the coverage of new Federal hires until we know precisely what the supplemental program may be.

Do you have any timetable on when you may be able to propose a specific plan?

Mr. DEVINE. We basically have our proposals together, but we have to clear them through the rest of the executive branch. We would hope it would be in the next 2 or 3 weeks.

The CHAIRMAN. What percentage of those who leave the Federal service cash out their pensions under the civil service retirement system when they leave?

Mr. DEVINE. In fiscal year 1982, which is the last we have data on, 191,687 employees separated and withdrew their contributions from the retirement system. We project about 170,000 refunds this year.

The CHAIRMAN. About what percent is that?

Mr. DEVINE. Of the total system?

The CHAIRMAN. Right.

Mr. DEVINE. We have 1.8 million retirees in the system. Or if you look at it terms of employees, we have about 2.7 million of them. I am not too quick on percentages.

The CHAIRMAN. But for that group who cashes out their pension, they effectively sever their ties to the civil service retirement fund. Is that correct?

Mr. DEVINE. Yes, sir.

The CHAIRMAN. That's a rather substantial number to cash out.

Mr. DEVINE. Yes. There were some unusual things last year with the air traffic controllers, in 1982.

But a substantial number do cash out. Actually, one of the benefits of bringing new Federal employees under social security is that social security is portable between employers where this system isn't, so we would expect that this would be a very definite positive part of the proposal to cover Federal employees under social security.

The CHAIRMAN. Well, that's a point we made at the Commission level. I think there is a feeling that being covered by social security is just another tax and that there are no benefits. I think there are a number of areas where the social security benefits may improve the protection Federal employees have now—disability protection and portability, for example. You may have other examples.

Mr. DEVINE. Yes, especially for low-income Federal employees. With the tilt in the benefit formula for social security for low-income employees, this would be a good deal. Again, right now we haven't fully cleared this through all interested parties in the executive branch, but we are seriously considering allowing individuals to go under the new plan, to choose it by election. And I would expect that many Federal employees who don't know the full scope of the benefits of the plan now will learn them, and a good number of them may decide to switch into the new system.

Certainly low-income individuals might exercise this option, and certainly people who don't plan to stay in the Federal Government for 5 years to become vested under the current system would seriously consider that also.

The CHAIRMAN. Will there be a substantial number of rehires—they are going to be treated as "new hires"—affected by S. 1?

Mr. DEVINE. We project that the approximately 178,000 new hires that we think we will be hiring for 1984, that about 59,000 of them will be rehires, about 33 percent of the total.

The CHAIRMAN. Do you expect, if we bring in Federal workers, that you will have difficulty in obtaining anybody to work for the Federal Government? You say about 22 are showing up for every opening in some categories. Will the Federal service dry up because of this?

Mr. DEVINE. No, sir. I don't believe that that's at all the case. I think even after all the changes we are talking about, the overall benefit package of the Federal Government will be more attractive than most areas in the private sector, and I suspect that we will be in a good position to recruit the kind of talented people that we need.

The CHAIRMAN. Well, it's a matter of some concern to the committee and it was to the Commission. You know, there have been efforts in the past to bring in all Federal employees, present and future. That was rejected. I think the last time that was offered in this committee there were four votes for that proposal.

We discussed covering all those with 5 years of service or less, on the theory of covering all those not vested under civil service. At one time that was in the Commission recommendation. Then we slipped back to 3 years; and then we concluded, inaccurately, that rather than take on all of the Federal employee unions and others who have a legitimate interest in this, we ought to just cover "new hires." There still is a great deal of opposition even to that. We will be hearing from a number of witnesses today and I think one or two tomorrow who will express their concerns.

I am not sure you will have an opportunity to review some of their concerns. If not and if they have just concerns they should be addressed, we may be asking you to take a look at some of the highlights of the testimony of different witnesses and to give your response.

I understand that all the polls indicate that a great majority want to cover Federal employees, particularly Members of Congress, the Social Security Commissioner, and maybe the Personnel Director. As I have indicated, in some cases that may lead to a reduction rather than an increase in social security taxes; but if that is what the public wants I don't think we want to disappoint anyone.

Is there any additional information you might provide for the record?

I appreciate your going through the entire effort on reform. Is that progressing rapidly in Congress?

Mr. DEVINE. Well, we have had hearings on it on the House side, and we expect to have hearings on the Senate side in the next couple of weeks. I think it is important that we move these items along as much as possible in tandem

I think one of the real concerns of Federal employees is that everybody will be put under the system mandatorily and that there won't be a phase-in for the present system in any changes that have to be made there.

So I think it is important that Congress look at both of these, and that's why I imposed on your time to look at the larger questions, so that we can kind of settle the package all together, so that we don't have these apprehensions about things which may happen in the future.

I think we can reform both of the systems, make it known upfront what the changes are and what I consider the reasonableness of the phase-in provisions on the different changes we are making, and that everybody is sharing as part of these changes to systems that have been allowed to get off course over a long period of time. I believe it is very important that we try to get this—to the degree possible—all done around the same time so that we can at least deal not with possible future concerns of what might happen, but to have something that exists now. And I believe the changes we are suggesting or any modifications that we may make as we go through the process will be much better than some indefinite fears off in the future. That is why I am concerned with Congressman Pepper's proposals, that all it will do, from my capacity as Personnel Director, is to just keep the pot churning for another year. Others have suggested a 2-year Commission, and so forth. All we are going to do is to create more and more disruption over a longer period of time.

I think it is important that we cut the Gordian knot and make the decisions, and get back to running the Government.

The CHAIRMAN. Congressman Pepper indicated that if that would in any way jeopardize the compromise, obviously he would not pursue that. I understand that his suggestion was not adopted by the subcommittee on the House side yesterday.

I am sure each group would like to have a Commission for a couple of more years to study everything. I know the business people would like to have something done on acceleration of taxes: my mother would like to do something on the COLA delay; others would like to do something on taxing benefits. But almost everyone wants to save the system. I don't suggest that we would let it fail, but we have already borrowed from medicare. We have borrowed $12 billion from that fund, and we were reminded just 2 or 3 days ago in front-page stories of different leading newspapers that that fund was in deep distress. I know the Federal employees don't like to pay the high income tax, but they don't mind the benefits of the program.

It seems to me, if we really like these programs, we ought to be willing to contribute to their success, or at least to their survival.

We are going to be moving as quickly as we can in this committee, probably following the House by only a day or two. We will pass whatever we can agree on, which as I view it today will be pretty much along the lines of the Commission's compromise.

We are not going to wait for you to get your reform passed, if that's all right. You may not finish it by Easter, and we intend to finish this by Easter—at least I sense strong support for that.

I have no additional questions, but I would hope that we might be able to ask you to review some of the concerns expressed by representatives of Federal employees. By and large they are highly dedicated men and women, and certainly if they have got a concern we want to address it, as you do. So we may be working with you or your staff.

Mr. DEVINE. Absolutely. We would be very happy to do that. There are a lot of concerns. I have been moving around, talking to Federal employees. They have a tremendous number of concerns, and I think the best thing we can do in this committee—and I applaud you for having the hearings and giving us this opportunity—the best thing we can do is get the facts out.

The Federal employees I have talked to don't necessarily like this but, when they realize the situation and how out of balance the situation has gotten, they realize that something has to be done to change it.

The CHAIRMAN. Right. I appreciate that, and we are looking forward to resuming the hearings at 1. We will have a number of witnesses to present some of those concerns. We appreciate your testimony very much. Your entire statement will be made a part of the record.

Mr. DEVINE. Thank you very much, Senator.

The CHAIRMAN. Thank you.

[Whereupon, at 12:12 p.m., the hearing was recessed.]

[The prepared statement of Mr. Devine follows:]

STATEMENT OF
HONORABLE DONALD J. DEVINE
DIRECTOR, OFFICE OF PERSONNEL MANAGEMENT

before the

COMMITTEE ON FINANCE
UNITED STATES SENATE

on

COVERAGE OF NEW FEDERAL EMPLOYEES
UNDER SOCIAL SECURITY

FEBRUARY 23, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

THANK YOU FOR INVITING ME TO APPEAR THIS AFTERNOON TO DISCUSS THE QUESTION OF COVERING NEW FEDERAL EMPLOYEES UNDER SOCIAL SECURITY. ACCOMPANYING ME TODAY IS MR. JAMES W. MORRISON, JR., OPM'S ASSOCIATE DIRECTOR FOR COMPENSATION.

THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM HAS RECOMMENDED THAT FEDERAL EMPLOYEES WHO ARE HIRED AFTER JANUARY 1, 1984, BE COVERED UNDER SOCIAL SECURITY RATHER THAN THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM. THE ADMINISTRATION SUPPORTS THIS RECOMMENDATION, AS A PART OF THE BIPARTISAN COMPROMISE SOLUTION TO THE PROBLEMS OF SOCIAL SECURITY FINANCING.

THERE HAS BEEN MUCH CONCERN EXPRESSED THAT SOCIAL SECURITY ALONE WILL NOT PROVIDE ADEQUATE RETIREMENT BENEFITS FOR THOSE NEW EMPLOYEES. HOWEVER, THE ADMINISTRATION WILL PROPOSE ESTABLISHING A NEW STAFF RETIREMENT PLAN TO SUPPLEMENT SOCIAL SECURITY COVERAGE. WHILE THE DETAILS OF THE NEW STAFF PLAN ARE STILL BEING DISCUSSED WITHIN THE EXECUTIVE BRANCH, THE OFFICE OF PERSONNEL MANAGEMENT IS PURSUING AN APPROACH THAT WOULD BE MODELLED ON PRIVATE SECTOR PRACTICES.

AGENCIES AND THEIR EMPLOYEES COVERED UNDER SOCIAL SECURITY AND THIS NEW STAFF PLAN WOULD EACH CONTRIBUTE 11 PERCENT OF SALARY FOR SUCH COMBINED COVERAGE, WITH THIS CONTRIBUTION GOING FIRST TO PAY THE OASDI TAX FOR SOCIAL SECURITY, AND THE BALANCE GOING TO THE STAFF PLAN. AGENCIES WOULD BE REQUIRED TO PAY A MATCHING AMOUNT. THIS NEW PLAN, WHEN COMBINED WITH SOCIAL SECURITY BENEFITS, WILL PROVIDE THE SORT OF COMPREHENSIVE RETIREMENT SECURITY THAT FEDERAL EMPLOYEES AND THEIR DEPENDENTS NEED AND DESERVE. AS WITH THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM, NEW FEDERAL EMPLOYEES WILL NOT VEST FOR FIVE YEARS.

WHILE I REALIZE THAT THE REFORM OF THE CIVIL SERVICE RETIREMENT SYSTEM IS NOT WITHIN THE PURVIEW OF THIS COMMITTEE, I THINK IT MIGHT BE HELPFUL TO YOU IN UNDERSTANDING OUR APPROACH TO THE DESIGN OF THE NEW SUPPLEMENTAL STAFF RETIREMENT PLAN TO SEE WHAT WE ARE PROPOSING FOR THE EXISTING RETIREMENT SYSTEM, WHICH WILL, OF COURSE, CONTINUE IN EXISTENCE FOR THOSE CURRENT EMPLOYEES WHO WISH TO REMAIN UNDER IT.

IN THE MORE THAN 60 YEARS THE CIVIL SERVICE RETIREMENT SYSTEM HAS BEEN IN EXISTENCE, IT HAS SERVED WELL ITS PURPOSE OF PROVIDING FINANCIAL SECURITY FOR FEDERAL RETIREES AND SURVIVORS, BUT IT HAS DONE SO AT A TREMENDOUS COST. TODAY THIS SYSTEM HAS A HALF TRILLION DOLLAR DEBT (UNFUNDED LIABILITY), WHICH THREATENS ITS INTEGRITY. THE SUCCESS WHICH THE SYSTEM HAS ACHIEVED HAS BEEN ACCOMPLISHED IN RECENT YEARS ONLY AT EVER-INCREASING COST TO THE TAXPAYER. WHILE EMPLOYEES DO CONTRIBUTE TO THE SYSTEM, GENERALLY 7 PERCENT OF PAY, THESE CONTRIBUTIONS PAY FOR LESS THAN 20 PERCENT OF THE VALUE OF THE BENEFITS THAT WILL BE RECEIVED. THE BALANCE MUST COME FROM THE GOVERNMENT. COSTS TO THE GOVERNMENT INCREASED BY 2,351 PERCENT BETWEEN 1960 AND 1981, AND WE CAN NO LONGER REASONABLY EXPECT THE TAXPAYERS WILL IGNORE THIS GENEROUSLY. THIS IS PARTICULARLY TRUE IN VIEW OF THE FACT THAT THE BENEFITS UNDER THIS SYSTEM ARE MORE GENEROUS AND THE RETIREMENT AGE SO MUCH EARLIER THAN FOR THE VAST MAJORITY OF AMERICANS.

IN ORDER TO MAKE THE SYSTEM SOLVENT IN THE LONG RUN, TO HAVE IT EQUALLY SUPPORTED BY EMPLOYEE AND EMPLOYER AS WAS PLANNED, TO BRING THE COSTS OF THE RETIREMENT SYSTEM MORE INTO LINE WITH WHAT THE GOVERNMENT CAN AFFORD, AND TO MAKE THE BENEFITS MORE COMPARABLE WITH WHAT NON-FEDERAL RETIREES RECEIVE, WE ARE PROPOSING SEVERAL REFORMS.

FIRST, WE PROPOSE THAT CURRENT FEDERAL EMPLOYEES WITH SUFFICIENT SERVICE CONTINUE TO BE ABLE TO RETIRE AS EARLY AS AGE 55, BUT BENEFITS WOULD BE REDUCED TO REFLECT THE COST TO THE RETIREMENT SYSTEM OF THIS EARLY RETIREMENT. FOR EACH YEAR THE EMPLOYEE IS UNDER AGE 65 AT THE TIME OF RETIREMENT, THE ANNUITY WOULD BE REDUCED BY 5 PERCENT. THIS REDUCTION WOULD NOT APPLY TO ANYONE WHO IS ALREADY 55, AND IN ORDER TO EASE ITS IMPACT ON THOSE NEAR RETIREMENT, THE REDUCTION WOULD BE PHASED IN OVER 10 YEARS. FOR INSTANCE, AN EMPLOYEE WHO IS NOW 54 COULD RETIRE AT 55 WITH AN ANNUITY REDUCTION OF ONLY 5 PERCENT. ONLY THOSE NOW 45 AND UNDER WOULD BE SUBJECT TO THE FULL REDUCTION.

SECOND, WE PROPOSE CERTAIN CHANGES IN COST-OF-LIVING ADJUSTMENTS FOR FEDERAL RETIREES. BASED ON THE RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM, THE BUDGET PROPOSES THAT COST-OF-LIVING ADJUSTMENTS FOR SOCIAL SECURITY BE DELAYED FOR SIX MONTHS, AND THE SAME SIX-MONTH DELAY WILL BE APPLIED TO CERTAIN OTHER INDEXED PROGRAMS, NAMELY SUPPLEMENTARY SECURITY

INCOME, RAILROAD RTIREMENT, VETERANS' PENSIONS AND COMPENSATION, FOOD STAMPS, AND CHILD NUTRITION PROGRAMS. FOR CIVIL SERVICE ANNUITANTS, OTHER FEDERAL CIVILIAN AND MILITARY RETIREES, AND RECIPIENTS OF FEDERAL WORKERS' DISABILITY COMPENSATION, THE FISCAL YEAR 1984 ADJUSTMENT WOULD BE FROZEN FOR THE FULL YEAR. THE DIFFERENT TREATMENT WOULD BE IN RECOGNITION OF THE RELATIVELY LARGER BENEFITS BEING PAID UNDER THE GOVERNMENT PENSION PROGRAMS. THE FREEZE WOULD BE ONLY FOR ONE YEAR. IN 1985, COST-OF-LIVING ADJUSTMENTS UNDER THE CIVIL SERVICE RETIREMENT SYSTEM WOULD RETURN TO THE PROVISIONS OF THE 1982 RECONCILIATION ACT, AND IN SUBSEQUENT YEARS, WE WOULD CONTINUE THE PRINCIPLE ESTABLISHED BY THE RECONCILIATION ACT OF PAYING ONLY ONE-HALF OF THE NORMAL COST-OF-LIVING ADJUSTMENT TO NON-DISABILITY RETIREES UNDER AGE 62.

THIRD, WE PROPOSE RETURNING TO THE USE OF THE HIGH-FIVE-YEARS' AVERAGE SALARY, RATHER THAN THE HIGH-THREE-YEARS' AVERAGE, IN COMPUTING EMPLOYEE BENEFITS. THIS CHANGE WOULD NOT TAKE EFFECT FOR THREE YEARS, AND WOULD NOT AFFECT ANYONE WHO IS ELIGIBLE TO RETIRE BY THE EFFECTIVE DATE.

OUR OBJECTIVE IN MAKING THESE CHANGES IN BENEFITS IS TO REDUCE THE COSTS OF THE RETIREMENT SYSTEM FROM THE CURRENT 35 PERCENT OF PAYROLL TO APPROXIMATELY 22 PERCENT OF PAYROLL, WHICH WOULD BE CONSISTENT WITH THE COST OF PRIVATE SECTOR RETIREMENT BENEFITS, INCLUDING SOCIAL SECURITY. IF THE CHANGES OUTLINED ABOVE ARE NOT SUFFICIENT TO ACCOMPLISH THIS COST REDUCTION TO 22 PERCENT, WE ALSO PROPOSE TO IMPLEMENT A REDUCTION IN THE FORMULA USED TO COMPUTE INITIAL ANNUITIES.

FINALLY, WITH THE COSTS OF THE SYSTEM REDUCED TO 22 PERCENT OF PAYROLL, WE PROPOSE RETURNING TO THE PRINCIPLE THAT THE MATCHING CONTRIBUTIONS OF

EMPLOYEES AND THEIR AGENCIES SHOULD BE SUFFICIENT TO FUND THE SYSTEM. IN ORDER TO MAKE THE SYSTEM SELF-SUPPORTING, THE CONTRIBUTION RATE WOULD BE INCREASED 2 PERCENT IN FISCAL YEAR 1984, AND A FURTHER 2 PERCENT IN FISCAL YEAR 1985. IN 1985, WITH EMPLOYEES AND AGENCIES GENERALLY CONTRIBUTING 11 PERCENT APIECE, THE FULL 22 PERCENT COST OF THE SYSTEM WILL BE PAID ON A CURRENT BASIS.

THANK YOU. I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THE COMMITTEE MAY HAVE.

AFTERNOON SESSION

Senator PACKWOOD. The committee will come back to order.

We will start this afternoon with a panel consisting of Ray Denison, Howard Young, and Sylvester Schieber.

Gentlemen, are you ready?

Mr. DENISON. Indeed we are.

Senator PACKWOOD. Good. You can go ahead in the order we called. Ray, why don't you go ahead and start first?

Mr. DENISON. All right.

STATEMENT OF RAY DENISON, DIRECTOR, DEPARTMENT OF LEGISLATION, AFL-CIO, ACCOMPANIED BY MR. BERT SEIDMAN, DIRECTOR, SOCIAL SECURITY DEPARTMENT, AFL-CIO, WASHINGTON, D.C.

Mr. DENISON. Mr. Chairman, I will read a short summary of our full statement which I ask be placed in the record as well as a statement adopted yesterday by the AFL-CIO executive council at its midwinter meeting.

Senator PACKWOOD. Both will be in the record.

[The prepared statement follows:]

83-15

SUMMARY OF RAY DENISON, DIRECTOR
DEPARTMENT OF LEGISLATION
AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS
ON SOCIAL SECURITY FINANCING PROPOSALS
BEFORE THE SENATE COMMITTEE ON FINANCE

February 23, 1983

Mr. Chairman, the AFL-CIO appreciates this opportunity to present our views on the financing of the social security system and the report of the National Commission on Social Security Reform. The AFL-CIO supports all but one of the Commission's consensus recommendations, because they are balanced and responsible and because they offer the best chance to make the program secure for present retirees and future generations of workers.

As I have said, there is one Commission proposal which the AFL-CIO could not accept. I refer to the recommendation for mandatory social security coverge of newly hired federal and postal employees. The proposal is being put forward in the context of seeking more funds to help finance the social security system and not in the context of what is best for federal and postal employees. In effect, these employees are being asked to blindly accept an unknown proposal.

No such proposal should be put forth until its details are known and federal employee representatives have had an opportunity to evaluate and comment on it. The AFL-CIO will oppose any proposal for mandatory coverage of federal, postal, state and local government employees unless it meets the following criteria: (1) no reduction in the level of pension benefits now available to such workers; (2) no additional financial burden imposed on employees without a commensurate adjustment in benefits; (3) maintenance of the identity of their retirement plans; (4) no diminution in the opportunity for these employees to improve their retirement systems.

An excellent substitute source of revenue to more than replace the revenue that would be gained by covering newly hired federal employees would be to tax the full payroll of employers as was recommended by the Carter Administration. The employer tax plays no role in determining the amount of the worker's benefit and there is no logic in not applying it to the total payroll. This proposal would increase the system's income by about $65 billion by 1990 and reduce its long-run deficit by .56 percent of taxable payroll.

As you know, Mr. Chairman, the consensus recommendations cover fully the Commission's projected short-term deficit and also two-thirds of its projected long-term deficit. Both the Democratic-and Republican-appointed Commission members recommended that additional measures be taken to deal with the total projected long-run deficit. They could not agree on a mutually acceptable way to handle the problem.

The Democratic-appointed members (those selected by the Democratic leadership of the Congress) recommend increasing the employer and employee contribution rate in 2010 by 0.46 percent of taxable payroll (the employee increase would be offset by a refundable tax credit). We support this recommendation.

It is important for public confidence to show a 75 year actuarial balance by setting a tax rate in the next century that would fully finance the program. But this should be done on the understanding that such a tax rate based on so many volatile assumptions so far in the future will undoubtedly have to be adjusted at some future time and may never take place.

The majority proposal of the members appointed by the President and the Republican leadership in Congress would raise the retirement age by a month each year, beginning in the year 2000 so that it would reach 66 in the year 2015. After that, the retirement age would rise in accordance with life expectancy and would be based on the principle of a constant proportion of adult life in retirement.

This is a bad proposal. Raising the age of eligibility is not different from an across-the-board benefit reduction. While this proposal would still allow paying benefits at age 62, it would result in an increased actuarial reduction starting at that age. Moreover, it would be at the expense of some of the poorest and most deprived of our older citizens -- those forced out of the labor market because of health conditions or unemployment.

The proposal of the Republican-appointed members to raise the retirement age would have an immediate impact on private pensions. Actuaries must estimate funding requirements 25 and 30 years into the future. The proposal begins to phase-in the increased retirement age in the year 2000, only 17 years from now. If enacted into law, this proposal would force many private plans to modify their provisoins -- either to cut benefits or increase funding. Employers would have to absorb these increased costs or reduce their private pension obligations.

Finally, it is essential for Congress to include in social security legislation a fail-safe provision that will guarantee the payment of benefits. Trust fund reserves are now very low and it will be 1990 before they begin to reach fully adequate levels. In the interim, they are vulnerable to unanticpated economic events that could threaten the interruption of benefits. The National Commission endorsed the principle of such a mechanism but only suggested some options. We urge the adoption of the option which would allow the trust funds to borrow from general revenues in the event they reach dangerously low levels.

In conclusion, Mr. Chairman, we hope our suggestions on the subject of social security financing will be helpful to the Committee. The AFL-CIO will strive to ensure that the good work and bi-partisan spirit represented by the National Commission's report will hold through the legislative process. The Commission has set an outstanding example of responsible leadership. We are sure that this Committee and the Congress will act to ensure the solvency of the social security system for now and in the future.

83-15

STATEMENT OF RAY DENISON, DIRECTOR, DEPARTMENT OF LEGISLATION AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS ON SOCIAL SECURITY FINANCING PROPOSALS BEFORE THE SENATE COMMITTEE ON FINANCE

February 23, 1983

Mr. Chairman, the AFL-CIO appreciates this opportunity to present our views on the financing of the social security system and the report of the National Commission on Social Security Reform. The AFL-CIO supports all but one of the Commission's consensus recommendations because they are balanced and responsible and because they offer the best chance to make the program secure for present retirees and future generations of workers.

Before social security, retirement for the vast majority of Americans meant dwindling savings and increasing dependency on family and neighbors. To many it was a frightening experience of destitution, dependency and private charity. It was a time when the phrase "Poor House" referred to real places where the elderly poor could expect bare subsistence and an accompanying loss of respect as well as personal degradation.

The fact that this bleak picture has improved so much is due primarily to social security. It has done more than any other American institution to provide our elderly citizens economic security and dignity. But social security is more than retirement or pensions. It provides a guaranteed income for the spouse and children when a younger worker dies and the same sort of income in the event of his or her total disability. These safeguards are not for those retired but for those still at work.

Mr. Chairman, in an effort to reach agreement, the Democratic-appointed members of the Commission reluctantly made concessions from deeply held positions. But a bi-partisan agreement ensuring the financial stability of social security based on relatively modest adjustments was preferable to the drastic benefit reductions some have advocated. The bi-partisan compromise solution will solve the system's short-run problems between now and 1990 and will keep the system solvent for at least 75 years without any significant reduction in benefits. Workers and beneficiaries can feel secure for now and the foreseeable future.

However, it is essential for Congress to include in social security legislation a fail-safe provision that will guarantee the payment of benefits. Trust fund reserves are now very low and it will be 1990 before they begin to reach fully adequate levels. In the interim, they are vulnerable to unanticipated economic events that could threaten the interruption of benefits. The National Commission endorsed the principle of such a mechanism but only suggested some options. We urge the adoption of the option which would allow the trust funds to borrow from general revenues in the event they reach dangerously low levels.

One item in the consensus recommendations which we reluctantly accept is the one-time six-month delay in the annual cost-of-living adjustment. Fortunately, the lower rate of growth in the Consumer Price Index in 1982 means the delayed increase will be the lowest of many years. In addition, the poorest beneficiaries will be given compensating increases in their Supplemental Security Income (SSI) benefits. The six-month delay was crucial to the consensus agreement and had to be weighed against the possibility of even more serious benefit cuts without it.

This agreement will avoid the dangers of a protracted political battle in the Congress and the risk of major benefit cuts, adoption of unsound proposals and temporary band-aid financing. Without this agreement, there would have been a further loss in public confidence and a sensible, permanent solution would have been made more difficult or even impossible.

Not just the Commission's consensus recommendations, but equally important, its unanimous agreement on the program's fundamental soundness and support for the principles on which it is based, should put to rest social security bankruptcy scare stories. Given the political composition of the members of the Commission, their unanimous affirmation of support for the program should go a long way toward restoring public confidence.

As I have said, there is one Commission proposal which we could not accept. I refer to the recommendation for mandatory social security coverage of newly hired federal and postal employees. The proposal is being put forward in the context of seeking more funds to help finance the social security system and not in the context of what is best for federal and postal employees. In effect, these employees are being asked to blindly accept an unknown proposal.

No such proposal should be put forth until its details are known and federal employee representatives have had an opportunity to evaluate and comment on it. The AFL-CIO will oppose any proposal for mandatory coverage of federal, postal, state and local government employees unless it meets the following criteria: (1) no reduction in the level of pension benefits now available to such workers; (2) no additional financial burden imposed on employees without a commensurate adjustment in benefits, (3) maintenance of the identity of their retirement plans, (4) no diminution in the opportunity for these employees to improve their retirement systems.

We support the Commission recommendation that would remove the option for state and local governments to withdraw from social security once they have elected coverage. Unlike private employers and employees, state and local government employees are covered on an elective basis and these public employers can unilaterally withdraw from the program. When they do, their employees lose valuable protections. Once coverage is elected, withdrawal should not be allowed. At the same time, provision should be made to permit withdrawn employers to reenter the system and to specify ways for workers and/or their unions to initiate such action.

The AFL-CIO is particularly concerned about the widespread withdrawals from social security by hospitals and other nonprofit institutions and the consequent loss of many employee benefits. We support the Commission's recommendation for mandatory coverage of nonprofit institutions as the best way to correct the problem and to restore lost benefits.

An excellent substitute source of revenue to more than replace the revenue that would be gained by covering newly hired federal employees would be to tax the full payroll of employers as was recommended by the Carter Administration. The employer portion of the tax is based on the assumption that the employer has a responsibility for paying not only wages but also a deferred wage to help maintain workers and their families when their working days are ended. It plays no role in determining the amount of the worker's benefit and there is no logic in not applying it to the total payroll. This proposal would increase the system's income by about $65 billion by 1990 and reduce its long-run deficit by .56 percent of taxable payroll.

The responsibility of employers for the welfare of their employees should be related to their total payroll rather than to just a part of each employee's earnings. In many countries, employers either pay social security contributions on the total earnings of employees or their social security taxes are larger than the employee's taxes. In addition, the U. S. employer tax is actually less than the employee's because it is deductible as a business expense from the employer's income tax.

Acceleration of Payroll Taxes

The consensus recommendations accelerate tax increases already scheduled in present law but avoid any new payroll taxes. The 1985 rate increase of .3 of a percent would be moved forward one year and workers would be provided a refundable tax credit for the amount of the increase. The 1990 scheduled increase (.5) would be partially moved forward (.36) for the years 1988-89. Thus, workers will bear no new additional tax burden for five years, and the additional burden will consist of a partial two year acceleration of an already scheduled tax increase.

The consensus recommendations on payroll taxes will have no impact on the present recession or unemployment contrary to exaggerated statements being made. The 1984 tax advance would be totally offset by a refundable tax credit. Payroll tax increases or benefit reductions of equivalent amounts produce approximately the same restrictive economic results. In any event, the effects of either can be offset partially or wholly by monetary policy. It is reasonable to expect the Federal Reserve will modify economic policy to take account of future tax increases, particularly since the effect of these increases will be to reduce the budget deficit. Thus, the claims that the Commission's recommendations on payroll taxes will increase unemployment are inaccurate and based on faulty analysis.

The much worse than expected performance of the economy is the cause of social security's short-run funding problem. First, much greater than projected inflation rates have triggered higher cost-of-living benefit increases while persistent restriction of wage increases has held down the revenue of the system. Second, much higher than expected unemployment rates have also curtailed expected revenues. In short, benefit costs are more and revenue less than were estimated. Social security's serious financing problems between now and 1990 are due to the sad performance of the economy resulting largely from the policies of the Reagan Administration. If we can get the economy moving again, some of the payroll tax increases now scheduled may not be necessary.

Social Security and Women

The various provisions of the Social Security Act relating to the treatment of men and women can be divided into two categories: those that contain specific reference to sex for the deliberate purpose of treating men and women differently; and those that make no specific reference to sex but indirectly result in differing treatment of men and women because of economic and social conditions extraneous to the law.

With regard to the first, the AFL-CIO has long taken the position that the same legal rights in all respects should flow from a worker's wage regardless of whether that worker is male or female. The second category is much more complex to deal with for it is difficult to correct by modifications in the Social Security Act the socioeconomic imbalances that have arisen for reasons unrelated to social security.

Nevertheless, changes are needed in social security to deal more equitably with the benefit problems associated with women. The program was founded on the then prevailing social and economic patterns -- men were largely the breadwinners and women for the most part were to receive benefits as wives and widows. Though the Social Security Law, with minor exceptions, treats equally men and women with the same work and earnings record, the basic structure of the program is not fully suitable for current work and family patterns which are characterized by the movement of women in and out of the labor force and increased divorce rates.

The Commission did recommend a number of significant changes primarily aimed at improving protection for certain groups of widows, divorced women and disabled women. We regret that because of the limited time and the over-riding need to deal with the program's financing problems, the Commission was unable to give the women's issues more extensive consideration. At the earliest possible opportunity the Congress should deal with these issues in a more comprehensive fashion.

Long-Run Solution

As you know, Mr. Chairman, the consensus recommendations cover fully the Commission's projected short-term deficit but also two-thirds of its projected long-term deficit. Both the Democratic-and Republican-appointed Commission members recommended that additional measures be taken to deal with the total projected long-run deficit. They could not agree on a mutually acceptable way to handle the problem but each side agreed to submit supplemental statements on how to achieve the objective.

The Democratic-appointed members (those selected by the Democratic leadership of the Congress) recommend increasing the employer and employee contribution rate in 2010 by 0.46 percent of taxable payroll (the employee increase would be offset by a refundable tax credit). We support this recommendation. If the Congress were to adopt the AFL-CIO suggestion to tax the full employer payroll instead of accepting the Commission's recommendation to cover new federal and postal employees, the increase would have to be only about 0.16 percent.

It is important for public confidence to show a 75 year actuarial balance by setting a tax rate in the next century that would fully finance the program. But this should be done on the understanding that such a tax rate based on so many volatile assumptions so far in the future will undoubtedly have to be adjusted at some future time and may never take place.

Among the nations of the world, only the United States and Canada attempt to project the cost of their social insurance system for 75 years into the future and only three others for as long as 50 years. Other nations feel that such projections are neither reliable nor useful. Very small differences in economic, demographic and other assumptions can lead to great variations in estimating the long term costs of a social security program when compounded over 75 years.

The majority proposal (consisting entirely of members appointed by the President and the Republican leadership in Congress) would raise the retirement age by a month each year, beginning in the year 2000 so that it would reach 66 in the year 2015. After that, the retirement age would rise in accordance with life expectancy and would be based on the principle of a constant proportion of adult life in retirement.

This is a bad proposal. Raising the age of eligibility is not different from an across-the-board benefit reduction. While this proposal would still allow paying benefits at age 62, it would result in an increased actuarial reduction starting at that age.

The proposal would break faith with young workers. They would be the ones affected by the future increases in the age of eligibility and, adding insult to injury, would also be required to pay larger social security contributions over their working lives. This would undermine confidence in the system.

Moreover, the proposed benefit cut, for that is what it is, would be at the expense of some of the poorest and most deprived of our older citizens -- those forced out of the labor market because of health conditions or unemployment.

Though it is true that on the average, older people will be living longer in the future, there would be many, probably most as is now the case, who would have to give up their jobs before being eligible for full benefits.

Two experts on aging testified before the National Commission that increased longevity does not mean a commensurate improvement in health. If anything, the limited evidence available seems to indicate the opposite -- more people living longer but with more disabilities.

In short, medical science is keeping people alive longer, but that includes chemotherapy, pacemakers, and kidney dialysis, which do much to extend life but very little to extend work life. Raising the age of eligibility for full retirement benefits would place an unequal burden on the majority of workers who are forced to leave the labor market because of poor health or inability to find a suitable job. It is simply wrong to decide now to extend the retirement age in the future when there is no assurance that employment opportunities or health conditions of the elderly will be significantly improved.

We should remove barriers that stand between older workers and employment and pursue effective economic policies that enable people to work. This would result in voluntary decisions to work by those who can without taking benefits from those who can't. Under these conditions, the delayed retirement incentives recommended by the Commission will work. We should rely on incentives rather than coercion.

The proposal of the Republican-appointed members to raise the retirement age would have an immediate impact on private pensions. Actuaries must estimate funding requirements 25 and 30 years into the future. The proposal begins to phase-in the increased retirement age in the year 2000, only 17 years from now. If enacted into law, this proposal would force many private plans to modify their provisions -- either to cut benefits or increase funding. Employers would have to absorb these increased costs or reduce their private pension obligations.

The proponents of the proposal have not produced any estimates of the increased costs that would be shifted to private plans nor estimates on what benefit reductions might result. They cannot argue that if future economic performance is better than expected but unemployment and health conditions of older workers not significantly improved, Congress can repeal the increase in the retirement age. There will be no easy repeal of a decision that was taken years earlier for private pension plans will already have made their adjustments.

Let's look back 17 years -- the time period equaling the future time span before the effective date of the majority's recommendation. The inflation rate in 1966 was 2.9 percent and the unemployment rate 3.8 percent. A major focus of discussion among economists in 1966 was how to spend the fiscal dividend -- the excess federal revenues then developing from favorable economic conditions. Both politicans and economists were making optimistic statements about solving the problems of the poor without inconveniencing the rich. No one foresaw the economic mess in 1983 -- 17 years into the future.

Fortunately, the Congress of that day did not pass legislation intended to influence present day economic and social policy. Nor should this Congress legislate in a way that could create problems for a future Congress. We urge this Committee to reject the majority proposal for resolving the long-run financing problem and to support the recommendation of the members selected by the Democratic leadership in the Congress.

In conclusion, Mr. Chairman, we hope our suggestions on the subject of social security financing will be helpful to the Committee. The AFL-CIO will strive to ensure that the good work and bi-partisan spirit represented by the National Commission's report will hold through the legislative process. The Commission has set an outstanding example of responsible leadership. We are sure that this Committee and the Congress will act to ensure the solvency of the system for now and in the future.

Statement by the AFL-CIO Executive Council

on

Social Security

February 22, 1983
Bal Harbour, Fla.

The social security program is one of the nation's greatest achievements and the cornerstone of our national retirement system. National leaders must deal responsibly with the system's financial difficulties.

The National Commission on Social Security Reform (NCSSR) reached a bipartisan consensus agreement on a package of proposals that will solve the system's short-run deficit. The commission also suggested alternative nethods of financing that should keep it solvent for the next 75 years.

The AFL-CIO supports all but one of the commission's consensus recommendations.

The one consensus recommendation which AFL-CIO President Lane Kirkland opposed as a member of the commission was for mandatory coverage of newly hired federal employees. Mandatory coverage solely to raise money for social security asks federal and postal employees to accept an unknown proposal without their being able to evaluate its effect on their current and future pension rights. They must know the details of any proposed alternative system to be certain that any suggested change is not detrimental to their current or future level of protection.

The AFL-CIO will not support mandatory coverage of public and postal employees unless all of the following conditions are met: (1) Pension benefits now available to government workers and their beneficiaries are not reduced. (2) No additional financial burden is imposed on public employees without a commensurate adjustment in benefits. (3) The identity for government workers' retirement plans is not lost. (4) The opportunity for those employees to improve their retirement systems in the future is not diminished.

Social Security

No action should be taken on mandatory federal and postal employee coverage when social security legislation is enacted this year until a fair solution can be worked out. Consideration of the issue of mandatory coverage of federal and postal employees should be deferred until such time as formulation of a proposal for an alternative or supplemental system can be addressed responsibly.

Instead of mandatory coverage of federal and public employees, the AFL-CIO urges applying the payroll tax rate to the employer's total payroll and not limiting it to the employee's wage base. This would bring in much more revenue than covering federal and postal employees.

The consensus agreement of the commission would meet the short-range financial requirement and two-thirds of the projected deficit over the next 75 years. The AFL-CIO proposal of applying the payroll tax rate to the employer's total payroll would provide more funds in both the short term and long term.

The commission members did not agree on how to finance the remaining one-third of the long-term deficit. The Republican-nominated members urged phasing in a higher retirement age beginning in the year 2000. The Democratic-nominated members recommended and the AFL-CIO supports an increase in the payroll tax of 0.46 percent in the year 2010 for employees and employers with the employee's increase offset by a refundable tax credit or, alternatively, a general revenue contribution of the same amount.

The AFL-CIO is unalterably opposed to any increase in the age of eligibility for retirement benefits. This would break faith with younger workers and would work a particular hardship on the majority of workers forced out of the labor market because of poor health and inability to find jobs.

The commission noted that recession or inflation might mean a shortfall in revenue, but didn't say what fail-safe provision should be used to provide adequate funding. The AFL-CIO urges temporary general revenue financing, which can be used if sudden or unexpected circumstances cause fund levels to fall below estimates.

Social Security

The AFL-CIO urges the Congress to establish an independent Social Security Administration (SSA) to insulate it from political manipulation. In so doing, the Congress should be guided by the following principles: (1) Establish the SSA as an independent agency governed by a bipartisan Social Security Board. (2) Codify into law a Bill of Rights for beneficiaries to ensure justice in the administration of social security programs. (3) Establish a public ombudsman to oversee the SSA and protect the interests of the public in all its activities.

The AFL-CIO will play a constructive role in the passage of social security legislation. Much is at stake for the nation.

Mr. Denison. Mr. Chairman, the AFL–CIO appreciates this opportunity to present our views on the financing of the social security system and the report of the National Commission on Social Security Reform. The AFL–CIO supports all but one of the Commission's consensus recommendations, because they are balanced and responsible and because they offer the best chance to make the program secure for present retirees and future generations of workers.

The one Commission proposal which the AFL–CIO could not accept is the recommendation for mandatory social security coverage of newly hired Federal and postal employees. That proposal is put forward in the context of seeking more funds to help finance the social security system and is not in the context of what is best for Federal and postal employees. In effect, these employees are being asked to blindly accept an unknown proposal.

No such proposal should be put forth until its details are known and Federal employee representatives have had an opportunity to evaluate and comment on it.

The AFL–CIO will oppose any proposal for mandatory coverage of Federal, postal, State, and local government employees unless it meets the following criteria: (1) no reduction in the level of pension benefits now available to such workers; (2) no additional financial burden imposed on employees without a commensurate adjustment in benefits; (3) maintenance of the identity of their retirement plans; (4) no diminution in the opportunity for these employees to improve their retirement systems.

An excellent substitute source of revenue to more than replace the revenue that would be gained by covering newly hired Federal employees would be to tax the full payroll of employers as was recommended by the Carter administration.

The employer tax plays no role in determining the amount of the worker's benefit and there is no logic in not applying it to the total payroll. This proposal would increase the system's income by about $65 billion by 1990 and reduce its long-run deficit by 0.56 percent of taxable payroll.

Senator **Packwood**. Explain to me, Ray, what you mean by that—that the employer would pay a tax on the full amount that the employee makes?

Mr. **Denison**. Yes. He is not limited to——

Senator **Packwood**. $35,000, roughly.

Mr. **Denison** [continuing]. $35,000. He would pay it on every dollar of payroll that he now puts forth.

Senator **Packwood**. Would employees match that?

Mr. **Denison**. He would pay that.

Senator **Packwood**. Oh, the employer would pay both the employer and the employee part?

Mr. **Denison**. The employer would pay the employer's portion.

Senator **Packwood**. Right.

Mr. **Denison**. He would continue to pay on his total payroll, rather than being cut off at the point where he is now cut off.

Senator **Packwood**. Would the employee pay?

Mr. **Denison**. The employee would only pay up to his current amount.

Senator **Packwood**. But basically what you are saying is that that is in essence an additional payroll tax to help make up the deficit?

Mr. **Denison**. Yes, because the argument could be made that an employer, for example, who has only low-wage employees is paying on everybody anyway. Another employer with all high-salary employees is in effect only paying a part.

Senator **Packwood**. Thank you.

Mr. **Denison**. As you know, Mr. Chairman, the consensus recommendations fully cover the Commission's projected short-term deficit and also two-thirds of its projected long-term deficit. Both the Democratic and Republican appointed Commission members recommended that additional measures be taken to deal with the total projected long-run deficit. They could not agree on a mutually acceptable way to handle the problem.

The Democratic appointed members recommend increasing the employer and employee contribution rate in 2010 by 0.46 percent of taxable payroll. The employee increase would be offset by a refundable tax credit. And we support this recommendation.

It is important for public confidence to show a 75-year actuarial balance by setting a tax rate in the next century that would fully finance the program; but this should be done on the understanding that such a tax rate, based on so many volatile assumptions so far in the future, will undoubtedly have to be adjusted at some future time and may never take place.

The majority proposal of the members appointed by the President and the Republican leadership in Congress would raise the retirement age from 65 to 66 by a month each year beginning in the year 2000. After that the retirement age would rise in accordance with life expectancy and would be based on the principle of a constant proportion of adult life in retirement.

This is a bad proposal. Raising the age of eligibility is not different from an across-the-board benefit reduction. While this proposal would still allow paying benefits at age 62, it would result in an increased actuarial reduction starting at that age. Moreover, it would be at the expense of some of the poorest and most deprived of our older citizens—those forced out of the labor market because of health conditions or unemployment.

The proposal of the Republican-appointed members to raise the retirement age would have an immediate impact on private pensions. Actuaries must estimate funding requirements 25 and 30 years into the future.

The proposal begins to phase in the increased retirement age in the year 2000, only 17 years from now. If enacted into law, this proposal would force many private plans to modify their provisions, either to cut benefits or to increase fundings. Employers would have to absorb these increased costs or reduce their private pension obligations.

Finally, it is essential for Congress to include in social security legislation a fail-safe provision that would guarantee the payment of benefits. Trust fund reserves are now very low, and it will be 1990 before they begin to reach adequate levels; in the interim, they are vulnerable to unanticipated economic events that could threaten the interruption of benefits. The National Commission endorsed the principle of such a mechanism but only suggested some options. We urge the adoption of the option which would allow the trust funds to borrow from general revenues in the event they reach dangerously low levels.

Mr. Chairman, yesterday at the AFL–CIO executive council meeting, a resolution was adopted that spelled out the AFL–CIO's position on social security. In that resolution, which is attached, the council urged "consideration of the issue of mandatory coverage of Federal and postal employees should be deferred until such time as formulation of a proposal for an alternative or supplemental system can be addressed responsibly."

Thank you.

Senator Packwood. Thank you.

Mr. Young?

STATEMENT OF HOWARD YOUNG, SPECIAL CONSULTANT TO THE PRESIDENT, INTERNATIONAL UNION, UNITED AUTO WORKERS, DETROIT, MICH.

Mr. Young. Thank you, Mr. Chairman.

My name is Howard Young. I am a special consultant to the President for the United Auto Workers. I am also an enrolled actuary, and I worked with the National Commission on Social Security Reform during its deliberations.

I will just summarize the statement that I have submitted.

We feel that the bipartisan agreement which was reached in January is the best compromise, given the present political and economic realities. We would not endorse individually some of the provisions in the agreement, but we do urge its passage as a package, and we would oppose efforts to break it up or to add crippling amendments.

Since others may be urging substantial changes in the compromise, it is important for the Congress to be aware of certain portions of the package which we would object to if they were standing on their own.

Delaying the COLA's for 6 months will impose hardship on lower income retirees. In addition, it should be clear that even though it has been characterized as a one-time change, it provides for ongoing real losses to retirees year after year.

As the Congress works on the compromise package, we urge a parallel delay in the effective date for the medicare premium increase. We note that Senator Dole acknowledged that issue in his introductory remarks for Senate bill S. 1 and characterized it as a "technical refinement or improvement to the NCSSR recommendations." We are not suggesting any general consideration of medicare at this time, since the Commission properly separated OASDI and HI and limited itself to the OASDI issue.

The UAW has argued for more progressive financing for social security for decades, and we continue to do so. We would have preferred that all future increases or even a larger fraction of the total payroll tax be offset by refundable income tax credits. Employers already enjoy income tax deductions for their contributions to social security, so that the 1984 credit is an essential part of the package.

Again, we understand that S. 1 as it has been drafted would implement the idea, providing that adjustment on an ongoing basis rather than having the credit delayed until income tax returns are filed in 1985.

Current social security financing problems are due entirely to persistently high unemployment levels and inflation in excess of wage gains. The 1978 social security trustees report, which has been so frequently criticized as overoptimistically predicting the future, included a projected unemployment rate far above desirable levels, but actual experience has been even worse.

The Commission was advised that every 1 percent increase in the unemployment rate translates into a loss of about 2 percent in social security contributions. That relationship implies that if there were 6 percent unemployment annually, which we believe would still be unacceptably high, the aggregate additional social security income for the 1970's and 1980's would be about $65 billion above expected levels, which assume much higher unemployment rates than 6 percent. Providing countercyclical general revenue financing for years when unemployment exceeds 6 percent, as was proposed by the Carter administration, clearly would have mitigated the current OASDI crisis.

The UAW believes everyone would benefit from social security coverage and that universal coverage would do much to improve the overall confidence people have in the system. We support the steps recommended by the NCSSR toward this goal.

The recommendation for social security coverage of future Federal employees includes their right to a supplementary retirement plan. Federal workers rightly insist that the extension of coverage should mean neither reductions in their overall retirement protections nor increases in their contributions, along with other conditions. The UAW supports this position and expects Congress to insure that Federal workers are not adversely affected by including them under social security.

Of course, Members of Congress, the judiciary, and the administration, as well as related staff people, should all be in social security.

It is important to remember that agreements on the financing goal did not reflect agreement that the amounts involved are actually necessary; a substantial portion of the $168 billion package is intended to bolster the cushion in the trust funds and does not reflect actual expected Federal expenditures.

With respect to the long run, the bipartisan compromise doesn't include agreement on actions for the long-term deficit. We strongly recommend enactment now of a provision in the law which would trigger partial general revenue financing in the next century if the trust funds begin to fall below adequate levels. We believe an explicit commitment of that nature is the most sensible solution for any possible financing problems in the next century and would do much to rebuild the confidence which younger workers have in the system.

The UAW is opposed to increasing the retirement age for regular or early retirement benefits and to reducing the general level of benefits for baby-boom retirees, as some have recommended.

If there were a reduction or a movement in the retirement age, there is a question of what the impact would be on private pension plans, which either would have to move in to fill the gap—that would increase their contributions and thereby reduce general revenues to the Federal Government because of the tax expenditures for private pension plans—or else they might delay their retirement age, which would decrease the asset buildup under private pension plans. Either of those, we think, are undesirable results.

The rest of my statement, Mr. Chairman, goes to some of the other recommendations of the Commission, particularly the administrative ones which we support; but I would just like to emphasize that we feel that social security is by far the most useful form of retirement income provision in this country, and that it is the most dependable in the long run of any of the retirement arrangements that people have. We feel that moves should be made to strengthen and improve it rather than any effort to cut it back.

Thank you very much.

[The prepared statement of Mr. Young follows:]

We appreciate the opportunity to share with the Senate Finance Committee our views on financing problems of the Social Security System. We represent approximately a million and a half active and retired members of the UAW, who are keenly interested in preserving Social Security protections for themselves and their families against loss of income - whether by death, disability or old age.

Bipartisan Agreement in the Report of the National Commission on Social Security

The UAW accepts the terms of the bipartisan agreement reached on January 15th as the best compromise agreement obtainable and enactable, given the present political and economic realities. We would not individually endorse some of the provisions of the consensus agreement (approved 12-3), but we urge passage of it as a package and will oppose efforts to block it or to add crippling amendments.

As with any compromise, all sides are not happy with all of its provisions. We find some aspects objectionable, but we do not regard these objections (serious though they are) as reason enough to reject the entire agreement. Just as in collective bargaining, both sides enter negotiations with strongly-held positions and are required (by political and economic conditions and the necessity of reaching agreement) to develop a workable compromise with which all parties can live.

Since others may be urging substantial change in the compromise, it is important for Congress to be aware of the portions of the package to which we would object if they were not part of the package.

(1) Delay in Cost-of-Living Adjustments

Delaying COLAs for 6 months will impose hardship for lower-income retirees. The average monthly Social Security benefit for a retired worker was only $417 in September 1982. At a relatively low inflation rate of 5%, the postponement of COLAs would mean a loss of $20 per month in the last half of this year.

Two-thirds of aged beneficiaries rely on Social Security for more than one-half of their income; a fourth of those beneficiaries age 65 or older rely on Social Security for 90% of their income. Twenty dollars a month will be a heavy sacrifice for those who rely mainly on Social Security benefits to make ends meet. In addition, it should be clear that the NCSSR recommendation to shift the base period for COLA calculations from the first to the third quarter after this year (without recognizing the on-going rate of inflation between those quarters) will not prevent ongoing real losses to retirees.

As a supplement to the compromise package, we urge a parallel delay in the effective dates for Medicare premium increases (now scheduled to go from $12.20 to $13.50 in July, 1983) in order to avoid an absolute decrease in benefit checks. The Medicare premium increase has been in July for that reason; i.e., to coincide with the COLA increase. We note that Senator Dole acknowledged the issue of synchronizing the two increases in his introductory remarks to S.1 and characterized it as a technical refinement or improvement to the NCSSR recommendations. We are not suggesting any general consideration of Medicare at this time. The NCSSR properly separated OASDI and HI, and limited itself to the former.

(2) Heavy Reliance on the Payroll Tax

Social Security financing already relies too heavily on the regressive payroll tax. The UAW has argued for more progressive financing for Social Security for decades and we will continue to do so. The bipartisan agreement accelerates the schedule of payroll taxes already legislated in 1977, but the regressive effect of only one of the increases (1984) is offset with a refundable income tax credit. The present burden of Social Security financing is already too skewed toward workers alone and we would have preferred that all future increases (or even a larger fraction of the total payroll tax) be offset by refundable income tax credits. Employers already enjoy income tax deductions for their contributions to Social Security, the net effects of which are far greater than would be the case for workers under a permanent provision for partial refundable income tax credits. The 1984 credit is an essential aspect of the package. As Congress deliberates on the mechanics of this proposal for refundable income tax credits, we urge consideration of a method which does not postpone the adjustment until 1985, but instead incorporates the credit on an on-going basis as income taxes are withheld. We understand that S.1, which would implement the NCSSR recommendations, contains such a mechanism to neutralize the effects of the accelerated payroll tax increase for workers in 1984. Such a provision would be more fair to workers and would help maintain aggregate demand and aid economy recovery.

The Urgent Need for Legislative Remedies

The health of our Social Security programs is a matter of serious concern to almost every American:

- 116 million American workers and their families are protected by Social Security.
- 36 million Americans receive cash benefits each month.
- 9 out of 10 workers are covered by Social Security, paying taxes, and earning future benefits.
- Disability and Survivor Insurance protection is provided for the vast majority of workers, especially those with young children.

A decade of high inflation and high unemployment has taken its toll on Social Security finances. Reserves for the Old Age and Survivor Insurance Trust Fund (OASI) gradually deteriorated in the seventies and the Reagan recession has sharply aggravated the financing problems. The OASI funds borrowed from the Disability Insurance (DI) and Hospital Insurance (HI) funds to meet benefit obligations for retirees and their dependents and survivors in November and December, 1982 - with additional amounts set aside for the first half of 1983. However, because of the continued dismal performance of the economy, even the combined reserves of Social Security could not meet OASI benefit payments some time next year if Congress does not act. All parties to the NCSSR deliberations recognized the urgent need for action to solve Social Security financing problems. The NCSSR bipartisan agreement was, therefore, a compromise out of necessity.

A Consensus on the Fundamental Structure of Social Security

The fact that the Commissioners, who reflect a very broad range of views, reached some agreement is testimony to the central importance of Social Security in our lives and the broad commitment that reasonable men and women of both parties have given to its present design.

Even the three who dissented from the agreement joined when the Commission unanimously recommended:

> "That the Congress, in its deliberations on financing proposals, should not alter the fundamental structure of the Social Security program or undermine its fundamental principles."

We hope that this kind of fundamental agreement on the structure and purpose of Social Security will silence the right wing, with their unworkable ideas for voluntary Social Security or other destructive changes in our most successful social program.

The Devastating Impact of Unemployment

Current Social Security financing problems are due entirely to persistently high unemployment levels and inflation in excess of wage gains. If we had had a solid commitment to full employment in recent years, there would be a major improvement in Social Security finances today. The 1978 Social Security Trustees Report (which is so frequently criticized for over-optimistically predicting the future) included a projected unemployment rate far above desirable levels, but actual experience has been even worse.

The Commission was advised that every 1% increase in the unemployment rate translates into a loss of about 2% in Social Security contributions because periods of high unemployment drag down the general wage level, and each increase in official unemployment figures also means an increase in the number of "discouraged" workers no longer counted in the data. That relationship implies that if there were 6% unemployment annually, which we believe would still be unacceptably high, the aggregate additional Social Security income for the 1970s and 1980s would be about $65 billion above expected levels (which assume much higher unemployment rates). Providing counter-cyclical general revenue financing for years when unemployment exceeds 6%, as proposed by the Carter Administration, clearly would have mitigated the current OASDI crisis.

The absolute failure of the Reagan Administration's economic policy has forced us all to make hard decisions, and to make them under deadline pressure. The President's costly and unreasonable determination to "stay the course" can only mean that the financing problems of Social Security will be more difficult to solve. It is not correct to charge - as some have - that Social Security's supporters have previously understated the problem; rather, we have always recognized the relationship to the overall economy, and have focused our efforts on government action to improve that. The high interest, high unemployment policies of the Reagan Administration itself are to blame for the depth of the current financing problems.

Universal Coverage

The UAW believes everyone would benefit from Social Security coverage and that universal coverage would do much to improve the overall confidence people have in the system. We support the steps recommended by the NCSSR toward this goal. In particular, we note that the recommendation for Social Security coverage of future federal employees includes their right to a supplementary retirement plan. Federal workers rightly insist that the extension of coverage should mean neither reductions in their overall retirement protections nor increases in their contributions, along with other conditions. The UAW supports this position and expects Congress to faithfully carry out its obligation to see that federal workers are not adversely affected.

The Commission properly recognized that extension of coverage is more feasible if limited to future employees; we agree with that approach, including elimination of "windfalls" to those not covered by Social Security. Of course Members of Congress, the Judiciary and the Administration, as well as related staff people, should all be in Social Security.

We support mandatory Social Security coverage for the nonprofit sector, as well as for state and local workers, as far as is constitutionally feasible. The burden of proof on this issue of constitutionality should be on those who would oppose coverage. The Commission's recommendation to prohibit opting-out is an important initial step.

Social Security Financing: The Short Run

The NCSSR bipartisan agreement (in response to the present financing problems) is projected to provide about $168 billion through a combination of new revenue and benefit cuts. The Commission had earlier decided that between $150 and $200 billion would be a desirable goal for the decade. Actually, the $168 billion package reflects the use of different economic assumptions (lower rates of price and wage inflation, for example) than were used at the outset. If the package of recommendations were evaluated using the economic and demographic assumptions underlying the Commission's earlier forecast of the goal, then the financial effect of the package would be closer to $200 billion.

It is important to remember that agreement on this financing goal did not reflect agreement that such large amounts are actually necessary; a substantial portion of the $168 billion package (approximately $50 billion) is intended to bolster the cushion in the Trust Funds and does not reflect actual expected federal expenditures. Also, in setting its goal, the NCSSR intended to overcome any worry about the ability to pay benefits and used "worst-case" economic and demographic assumptions which, for example, assume that unemployment will remain above 8% for the next 5 years, that inflation will be above 8% for the next 6 years, that real wages will grow less than 1% per year for the decade and that the economy will remain in its present malaise.

Such a state of economic paralysis and contrived recession is unacceptable policy today and would be unthinkable policy for the decade. We believe it is unfortunate that it is necessary to base Social Security policy decisions for the decade on "worst-case" economic assumptions, but recognize that with each passing day of economic failure this Administration is taking us all closer to that awful reality. In order to reassure those who are concerned about continued payment of their benefits, it is prudent to put in place a legislative solution that is likely to provide too much - rather than too little - financing.

Social Security Financing: The Long Run

The NCSSR, using more reasonable economic assumptions for the long run, found that there may be a shortfall of 1.8% of taxable payroll for OASDI programs averaged over the next 75 years. The $168 billion of new money and the continuing impact of the recommendations of the NCSSR for the 1980s already account for about 1.2% of the expected long-run deficit, with additional possible deficits occurring at a point well into the next century. The bi-partisan compromise (which we have stated has our reluctant support) does not include agreement on action for the long term deficit.

We strongly recommend enactment now of a provision in the law which would trigger partial general revenue financing in the next century if the trust funds begin to fall below adequate levels. That would be preferable to additional future payroll tax increases, which has been the traditional method used to "balance" the system. A permanent refundable income tax credit designed to offset the regressivity of the payroll tax would make a contingent future increase in the payroll tax less objectionable; but we believe an explicit commitment for general revenue financing is the most sensible solution for any possible financing problems in the next century and would do much to rebuild the confidence that younger workers have in the system.

Nine of the fifteen Commissioners recommended a one-year increase in the retirement age (from 65 to 66) by 2015 for those born in 1949 or later in order to meet the possible long-run deficit. They would also add a provision for a further automatic escalation of the retirement age based on estimates of average longevity improvements.

The UAW is opposed to increasing the retirement age for regular or early retirement benefits, and to reducing the general level of benefits for baby-boom retirees as some have recommended. Neither course is justified at this point. Nothing would do more to erode the younger worker's confidence in the system than to increase his or her payroll taxes now and to promise a benefit cut or delay when he or she is just ready to retire. Blue-collar workers, who already spend more of their lives working and producing for the nation than do white-collar workers, can not be expected to accept a Social Security System that sets up a retirement age that will continually elude them. Such a change in Social Security would also mean a vast disruption of private retirement programs, and would be extremely difficult to reverse if later retirement proves to be undesirable. We view retirement policy both on its merits in meeting the needs of retirees and on its merits as a stimulus for employment of younger workers. In a wider sense, those who argue that we will experience labor shortages in the next century ignore that the weight of evidence is more with those of us concerned about the difficulties in reaching and maintaining full employment now and in the future.

The volatility and uncertainty of key economic assumptions over such long forecasting periods is simply too great for anyone to assert with any accuracy the amount of new money that may be needed and the appropriate source of such funds. No one questions that we will have many more retirees beginning in the second decade of the twenty-first century. What is very uncertain is a whole set of economic assumptions related to our ability to pay benefits more than a half-century from now (immigration, labor force participation of women, productivity, relative shares of taxable wages vs. fringe benefits). How many "experts" predicted in 1933 that more than 50% of all women would enter the labor force and thus boost the income to Social Security through the payroll tax?

The aging of the population in the next few decades is a social development which must be viewed in a very broad context. It is true that an aging population means increasing costs to the active workforce in cash benefits to retirees. It is seldom mentioned, however, that this increasing proportion of older people is due to a slowdown in total population growth. If the "baby boom" generation produced as many children as their parents, then the Social Security System would appear to be better off, but the entire nation would suffer the ill effects of overpopulation. Thus, the financing pressures on Social Security which may develop in the next century are a small price to pay for having avoided the social and economic dislocation of rapid population growth.

The affordability of Social Security in the long run (regardless of how we choose to fund the program) can best be thought of by comparing total benefits to the Gross National Product. Today the monthly cash benefit programs under Social Security amount to about 5% of GNP. The 1982 Social Security Trustees' report estimates that this percentage will remain fairly constant until the second decade of the next century. From that point until the middle of the twenty-first century benefits are expected to be about 5-6% of GNP. Thus, when compared to the steady growth of output in the economy and our ability to pay benefits, the expenditures for Social Security are relatively stable during the decades when the "baby boom" generation moves through the system. Such a level of expenditures is also relatively smaller than that of any advanced European nation where expenditures for programs comparable to our OASDI system account for 6-10% of GNP.

Actuarial, and Other, Projections

We recognize that revised estimates will be prepared by the Social Security Administration and others. While such estimates are useful to determine the approximate range of short and long term targets and the impact of program provisions, the NCSSR pointed out that its estimates and compromise package were adopted with advance recognition of such recalculations. Thus, unless some totally unexpected factors are relevant, we urge the Congress to resist any temptation to adapt the package to newer - but equally fallible - assumptions and projections.

The only certainty we can have about the future is that it's not likely to be what we expect. That's another reason why we in the UAW believe that the flexibility and reliability of a commitment for future general revenue is the best long term approach. The source of such general revenue and the incidence on taxpayers can be adapted to whatever conditions prevail in the future.

Administrative Issues in the NCSSR Report

The UAW supports several other NCSSR administrative recommendations, including: removing Social Security from the unified federal budget; improving the investment procedures for the Trust Funds; adding public members to the program's Board of Trustees; and creating a bipartisan board of directors to oversee the program's operations instead of leaving it under the control of the Administration's Secretary of Health and Human Services. Further, it is essential that Social Security's administrative capabilities be strengthened (both in staffing and computer facilities) so that efficient delivery of benefits can be maintained. All of these steps would increase public confidence in the system by insulating this vast social program (with extremely long-run commitments) from the risks of having its future decided under immediate budget considerations instead of in the proper framework of its enduring, programmatic needs.

Building the Future of Social Security

The UAW has consistently argued that the present short-run financing problems of Social Security should have been solved by broadening the financing base of the program without tampering with its benefits. We have accepted the NCSSR bipartisan agreement as the best obtainable and enactable compromise given the economic and political circumstances and the urgent need to act. These difficult choices have been fashioned for us by the poor economic performance of the 1970s and by the Reagan

Administration and its horribly costly failure to promote economic growth and full employment. Social Security only mirrors the general economy and this Administration has come dangerously close to shattering both.

We trust that this compromise will put Social Security financing on an even keel in the midst of the Reagan recession and save it from further attempts by the Administration to cut benefits.

In better times the UAW will continue to press for improvements in Social Security financing and its benefit structure so that it can meet more adequately the needs of the next generations of retirees and their families, without putting unfair burdens on the working population. Our ongoing agenda for Social Security includes:

- Fail-safe financing mechanisms for the next century which rely on additional revenues from the progressive income tax.
- Requiring employers to contribute to Social Security on the basis of total payroll.
- Further improvements in Social Security benefits for those who work long years at substandard wages.
- Further improvements in the equitable treatment of women.
- Changes in the benefit structure to recognize the loss of protection millions of unemployed workers have suffered by being laid off from covered employment.

Social Security is an institution which reflects our on-going collective choices about the kind of future we want to fashion for ourselves. We believe that Congress should continue to pursue these important fundamental issues in the future, and not simply limit itself to cost-cutting considerations as the Administration has consistently proposed.

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Senator PACKWOOD. Mr. Denison, let me ask you and then Mr. Young about public employees—and I see the qualifications that you put in your statement.

Should the policy of this Government be to attempt to move public employees roughly to the place where those who are in private employment are now? I realize that can mean a supplementary pension benefit; the UAW has a supplementary pension benefit. But should we be moving toward some kind of parity—similar age for retirement, similar length of service—or not?

Mr. DENISON. I think that if a program could have been worked out over the past several years in conjunction and in consultation with the Federal employee unions, a movement could have begun and can begin in that direction. But I think the concern, the suspicion, if you will, of Federal employees and public employees and postal workers is understandable when they have seen other programs cut—railroad retirement, if you will, and other such programs.

So there are suspicions and hostility at this moment when suddenly a Commission report comes out in which they are to be expected to go into social security and expect some kind of supplemental pension program about which they have had no inkling, no indication, no consultation. It is somewhat arbitrary, and we certainly sympathize with their concern.

We feel that early on there should have been discussions with these workers and their representatives toward the goal.

Senator PACKWOOD. Well, let me come back again to my question: Should the ultimate goal be to bring them in so that their retirement is roughly the same as equivalent workers in the private sector, not only as to amount but as to the length of service?

Mr. DENISON. Well, I think that would depend on the kind of a program. In the private sector there are a total range of programs in addition to social security.

If it were a high-quality program that would match in the end that which the worker in the private sector receives from social security in a high-level program, that would be an ideal, yes.

Mr. YOUNG. Mr. Chairman, if I may, there is a great deal of variety in the private sector as to what pension benefits are, and those reflect a lot of things—not only the economic conditions of the industry but also the preferences of the individual work forces involved.

We have frequent experiences where two groups of employees working for different firms in essentially equal economic status may nevertheless choose to put more or less priority on pensions. So I think that the question of what the total level of benefits should be is one that the Federal workers have to work out with the Federal Government.

Our support goes for the idea that a portion of their pension should be provided under social security just like everyone else. But what the supplementary program looks like and what the total should be is something that the Federal workers are entitled to work out with the Federal Government, and the basic position is that they should not be disadvantaged at this point in time by moving them under social security.

Senator PACKWOOD. Refresh my memory of what the UAW pension plan is.

Mr. YOUNG. Well, again, we don't have any single pension. We negotiate individual pension plans with each of the employers we deal with. There is a program that covers UAW members at General Motors; there is a program that covers UAW members at Ford; there is a program that covers UAW members with the ABC Parts Co.

Senator PACKWOOD. Which one are you most familiar with?

Mr. YOUNG. Well, the General Motors program is the one that is most often referred to because it's the biggest. We have the most people there. And it has a whole range of provisions. Eligibility provides for retirement with 30 years of service without any age requirement, or at specified ages with less than 30 years of service. The benefit level gets a little complicated to characterize; it's not a specified percentage of pay. But people currently retiring at 30 years of service would get a benefit level on the order of $800 a month until they reach age 62, and then it is a benefit level of roughly $18 for each year of service that they had in the program.

Senator PACKWOOD. That's $18 per month?

Mr. YOUNG. $18 per month for each year of service, so if they had 30 years it would be $540.

Senator PACKWOOD. Does it drop, then, on the assumption that they are eligible for social security?

Mr. YOUNG. Yes.

Senator PACKWOOD. And you are trying to keep them roughly at the $800 level?

Mr. YOUNG. That was the original design, but the major thing is it recognizes that they will get social security at age 62—that is, it assumes they will go in and collect their social security when they are age 62 if they are already retired.

Senator PACKWOOD. Now, what I'm trying to drive at—for years we talked about comparability between Federal and private sector employees, and I'm wondering if we should be moving toward comparability on retirement, realizing that there are differences in the private sector and we may, therefore, want differences in the public sector.

Mr. YOUNG. I am not an expert on comparability, but the only thing I would suggest is that you have to both look at the pension-benefit comparability and total comparability, because people do make priority allocations. In any given round of collective bargaining there may be emphasis on pensions; there may be emphasis on wages; there may be emphasis on health care. So if you look at different times you will get a different mix of the compensation package, and I think selecting any one item out for parity comparability doesn't always give you the right answer.

Mr. SEIDMAN. If I may, Mr. Chairman—I am Bert Seidman, the director of the Social Security Department of the AFL-CIO—the concept of comparability as it applies to wages refers essentially—to the extent that it can be determined—to comparable occupational groups.

Presumably, the Congress would not be interested, in this case, in setting up a very large number of different pension plans depending on the occupations of the people involved.

So we think that insisting that there should be no diminution in the protections that Federal and postal employees now have in any new arrangement that may be set up in connection with their coverage under social security, if that comes about, we think that that objective would be a sound one, and it is one which could be achieved, and—as Mr. Denison has said—ought to be achieved in close cooperation with the representatives of those employees, the unions involved.

Senator PACKWOOD. But the ultimate goal is, it should be achieved?

Mr. SEIDMAN. It should be achieved in terms of not diminishing their present level of protection.

Senator PACKWOOD. I understand that, but if that can be achieved they should be folded into the social security system?

Mr. DENISON. That says it for them.

Senator PACKWOOD. All right, I have no more questions. Thank you, fellows, we appreciate it.

Mr. Schieber?

[No response]

Senator PACKWOOD. Sylvester Schieber? Is Mr. Schieber here? Because, if not, we will move on to the next panel.

[No response]

Senator PACKWOOD. All right.

Let's move on to Mr. Kenneth Blaylock, Stanley Lyman, Vincent Sombrotto, Robert Beers, and James Peirce, and we will put on Mr. Schieber after the panel.

Mr. Lyman, do you want to start?

Mr. LYMAN. Why not?

Senator PACKWOOD. Go right ahead.

STATEMENT OF STANLEY Q. LYMAN, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF GOVERNMENT EMPLOYEES, WASHINGTON, D.C.

Mr. LYMAN. If you don't mind, Mr. Chairman, I have a summary of the earlier statement that we submitted to the committee, which I would like to introduce into the record.

Senator PACKWOOD. That will be in the record. We will put your entire statement in the record, and you may proceed as you want.

Mr. LYMAN. Thank you, sir.

The National Association of Government Employees, which is an affiliate of the Service Employees International Union represents some 100,000 Federal employees nationwide, and we are certainly pleased to have the opportunity to present our views on the report of the National Commission on Social Security Reform to this particular committee.

Our members, of course, are interested in the recommendations of the National Commission on Social Security Reform. Of vital concern to our organization is the recommendation that coverage under the OASDI program should be extended on a mandatory basis as of January 1, 1984, to all newly hired civilian employees of the Federal Government.

The NAGE opposes the recommendation that all new Federal employees be included under social security. This recommendation would, we fear, jeopardize the retirement system of millions of Federal employees and retirees, needlessly waste millions of taxpayer dollars, and wreak havoc with the morale and productivity of the civil service work force.

The debate over including federal employees under the social security has been raging for years. The attraction to the proponents of this proposal has been the short-term infusion of cash into the social security system. Four previous Congresses have rejected this approach as shortsighted and cost ineffective.

The NAGE urges this committee to consider the overall effect to the social security system, the Treasury, and the civil service retirement system of this proposal, and not be pressured into any hasty and costly action which would have a disastrous effect.

The National Commission estimated that a savings to the social security system of some $20 million could be realized in the short run. The Commission also asserted that a .3 savings of taxable payroll over 75 years could be realized. This latter assertion has been disputed by several sources:

A previous Commissioner of the Social Security Administration testifying before the House Post Office and Civil Service Committee indicated that the inclusion of Federal employees under social security would only add to the long-range problems of the social security system.

A recent Wall Street Journal dated December 2, 1982, called the inclusion of Federal employees under social security a "Trojan Horse" which would only add to the amount of social security liability over the long run as millions of Federal employees become eligible for the benefits.

NAGE shares the view that extending social security coverage to the Federal employee would only add to the long-range deficit of the social security program.

Extending the social security coverage to new Federal employees would have severely detrimental effects to the civil service pension fund and to the Treasury.

At present the fund has an unfunded liability of some $185 billion. In part, this unfunded liability can be accounted for by the Government's failure to pay its full share into the fund in earlier years.

During recent years the unfunded liability has been met by increasingly large contributions from the Federal Treasury.

Despite the unfunded liability, the retirement fund has a balance of $96 billion as of September 30, 1982.

If newly hired Federal employees were removed from the system, it would result in the fund's balance reaching a zero amount in approximately 20 years. In about 40 years there would be virtually no workers left to pay off the fund's $185 billion liability. With a modest rate of inflation the unfunded liability would reach over $500 billion. This heavy financial burden could only be met out of appropriations from general revenue.

There would be a drain on the Treasury caused by the inclusion of Federal employees under the social security system. Federal employees, unlike social security recipients, pay taxes on their benefits. Inclusion of Federal employees would result in a loss of tax revenues as nontaxable social security benefits replace the taxable pension benefits.

In short, the NAGE believes that including the newly hired Federal employees makes bad economic sense. In essence, this proposal, we feel, is penny-wise and pound-foolish, substituting a short-term infusion of capital into social security for increased long-term deficits in social security plus losses of revenues to the Treasury, and of course risking bankruptcy of the present civil service retirement program.

The civil service retirement system has been the most successful benefit in attracting and retaining quality workers. The pension benefits under the CSRS have been designed to provide a comfortable and dignified retirement for those who invest their long years of work in the Government. The CSRS thus provides an incentive to the most dedicated workers to remain with the Government for their careers. These individuals have been willing to forgo more generous private sector pay levels for a secure and adequate pension. This promise of a secure retirement has been the basis upon which many Federal employees have launched their careers with the Federal Government. In good conscience, the Government cannot jeopardize the pension benefits of current workers.

In addition, by jeopardizing the CSRS, the Government runs the risk of losing its ability to attract and retain the quality workers needed to accomplish Government missions. It would be a tragic mistake if the Government were unable to attract the "best and the brightest" at a time when rapid advances in technology and the increasingly complex mission of the Government place greater demands on skilled and motivated workers.

The National Commission has indicated that an independent supplemented plan should be developed for new Federal hires by January 1, 1984. We believe this is an unrealistic expectation. The task of developing an independent supplemental retirement plan would be an extremely complex one. The civil service retirement system is not one retirement plan but actually dozens of separate plans involving workers of different legal status. There are literally dozens of committees in addition to the House Post Office and Civil Service and the Senate Governmental Affairs Committee who have jurisdiction over changes in the civil service retirement systems. At this time there is no comprehensive legislation introduced to address this issue.

It would, we suggest, be a very difficult task to coordinate actions between committees, and research and develop legislation to address the complex questions which arise in developing a pension system of this magnitude.

Mr. Chairman, we feel the evidence that this committee has and other committees that have heard this issue has shown that the recommendation to include new Federal employees under the social security program would be cost ineffective. The proposal would jeopardize the retirement of millions of Federal employees and retirees and would impact on the Government's ability to perform its mission. We urge this committee to reject that proposal.

[The prepared statement of Mr. Lyman follows:]

The National Association of Government Employees (NAGE) an affiliate of the Service Employees International Union (AFL-CIO) represents over 100,000 federal employees nationwide, is pleased to have this opportunity to present our views on the Report of the National Commission on Social Security Reform to the Senate Finance Committee.

Our members are interested in the recommendations of the National Commission on Social Security Reform. Of vital concern to our organization is the recommendation that coverage under the OASDI program should be extended on a mandatory basis as of January 1, 1984 to all newly hired civilian employees of the federal government.

The N.A.G.E. opposes the recommendation that all new federal employees be included under Social Security. This recommendation would, we fear, jeopordize the retirement system of millions of federal employees and retirees, needlessly waste millions of taxpayer dollars, and wreck havoc with the morale, and productivity of the civil service workforce.

The debate over including federal employees under social security has been raging for years. The attraction to proponents of this proposal has been the short term infusion of cash into the Social Security System. Four previous Congresses have rejected this approach as shortsighted and cost ineffective. The N.A.G.E. urges this Committee to consider the overall effect to the Social Security System, the Treasury and the Civil Service Retirement System of this proposal and not be pressured into any hasty and costly action which would have a deleterious effect.

The National Commission estimated that a savings to Social Security of some $20 million could be realized in the short run. The Commission also asserts that a .3% savings of taxable payroll over 75 years could be realized. This latter assertion has been disputed by several sources. A previous Commissioner of the Social Security Administration testifying before a House Post Office and Civil Service Committee indicated that inclusion of federal employees under Social Security would only add to the long range problems of Social Security. A recent Wall Street Journal article (December 2, 1982) called the inclusion of federal employees under Social Security a "Trojan Horse" which would only add to the amount of Social Security liability over the long run as millions of federal employees become eligible for benefits. N.A.G.E. shares the view that extending Social Security coverage to federal employees would only add to the long range deficit of Social Security.

Extending Social Security coverage to new federal employees would have severely detrimental effects to the Civil Service Pension Fund and to the Treasury. The Civil Service Retirement and Disability Fund is the disbursing mechanism out of which benefits are paid. The Fund is maintained as an accumulation of assets held in trust for Civil Service Retirement System members by the U.S. Treasury. These assets are for the most part placed in the form of specially created financial instruments in which revenues to the Fund are invested.

At present the Fund has an unfunded liability of some $185 billion. In part this unfunded liability can be accounted for by the government's failure to pay it's full share into the fund in earlier years. In part the unfunded liability has been caused by a liberalization of benefits which has exceeded contributions. During recent years the unfunded liability has been met by increasingly large contributions from the federal treasury.

Despite the unfunded liability the Retirement Fund has a balance of $96 billion as of September 30, 1982. An independant study conducted estimates that if funding were continued as currently mandated by law, there would be adequate resources to pay retirement benefits into perpetuity.

If however new hired federal employees were removed from the system, it would result in the Funds balance reaching zero in about 20 years. In about 40 years there would be virtually no workers left to pay off the Funds $185 billion liability. With a modest rate of inflation the unfunded liability would reach over $500 billion dollars.. This heavy finanical burden could only be met out of appropriations from general revenues.

There would be a drain on the Treasury caused by the inclusion of federal employees under Social Security. Federal employees unlike Social Security recipients pay taxes on the benefits. Inclusion of federal employees would result in a loss of tax revenues as non-taxable Social Security benefits replace taxable pension benefits.

In short the N.A.G.E. believes that including new hired federal employees makes bad economic sense. In essence this proposal is penny wise and pound foolish, substituting a short term infusion of capital into Social Security for increased long term deficits in Social Security plus loses of revenues to the Treasury, and risking bankruptcy in the Civil Service Retirement System.

Historically the Civil Service Retirement System has been an important device in insuring that the federal mission is undertaken with the most skilled personnel available. The Civil Service Retirement System predated the establishment of Social Security. Originally the C.S.R.S. was established (in 1920) as an efficient and humane method to remove from active civil service tenured employees whose age or infirmity prevented the satisfactory performance of their duty. It was only later that the social goals of pension benefits were emphasized to a greater degree. The C.S.R.S. gradually developed as it's objective the protection of employees. The concept of retirement as payment granted to achieve management objection was slowly supplanted by the concept of retirement as a deferred form of compensation. Retirement became a right earned through past services, workers were held to be entitled to an income sufficient to live in comfort and dignity after the completion of a full career.

The Civil Service Retirement System has always required greater employee investment and provided greater benefits than has Social Security. In the early days of the C.S.R.S. the employee contributed 2-1/2 percent of salary to the Pension Fund while the government contributed nothing. It was only after 1952 that Congress passed a law requiring that the government's contribution to the C.S.R.S. Fund could not be less than the employee's contribution. To some degree the government's failure to contribute an equal share to C.S.R.S. has lead to the present unfunded liability.

The Civil Service Retirement System has been the most successful benefit in attracting and retaining quality workers. The pension benefits under C.S.R.S. have been designed to provide a comfortable and dignified retirement for those who invest the longest years of work in the government. The C.S.R.S. thus provides an incentive to the most dedicated workers to remain with the government for their careers. These individuals have been willing to eschew more generous private sector pay levels for a secure and adequate pension. This promise of a secure retirement has been the basis upon which many federal employees have lauched their careers with the federal government. In good conscience the government cannot jeopordize the pension benefits of current workers. In addition by jeopordizing the C.S.R.S. the government runs the risk of losing it's ability to attract and retain the quality workers needed to accomplish government mission. It would be a tragic mistake if government were unable to attract the "best and brightest" at a time when rapid advances in technology, and the increasingly complex mission of government place greater demands on skilled and motivated workers than perhaps ever before.

The National Commission has indicated that an independant supplemented plan should be developed for new federal hires by January 1, 1984. This is an unrealistic expectation. The task of developing an independant supplemental retirement plan would be an extremely complex one. The Civil Service Retirement System is not one retirement plan but actually dozens of seperate plans involving workers of differing legal status. There are literally dozen's of Committee's in addition to the House Post Office and Civil Service and Senate Governmental Affairs Committee with jurisdiction over changes in the Civil Service Retirement Systems. At this time there is no comprehensive legislation introduced to address this issue. It would, we suggest, be a very difficult task to coordinate actions between committees, and research and develop legislation to address the complex questions which arise in developing a pension system of this magnitude.

Mr. Chairman, the evidence has shown that the recommendation to include new federal employees under Social Security is one which is cost ineffective. This proposal would jeopardize the retirement benefits of millions of federal employees and retirees, and would impact on the governments ability to perform it's mission. We urge this committee to reject this proposal.

STATEMENT OF VINCENT R. SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, WASHINGTON, D.C.

Mr. SOMBROTTO. Mr. Chairman, my name is Vincent R. Sombrotto. I am president of the National Association of Letter Carriers, AFL-CIO, a labor organization comprised of some 250,000 members both active and retired who deliver our Nation's mail.

The financial stability of the social security system is of major importance to our members, most of whom have family members who are or will be dependent upon social security. Consequently, I am pleased to appear before you and other members of this committee.

Mr. Chairman, I appear before you to speak out as loudly as I can and as clearly as I can in opposition to the proposal of the National Commission on Social Security that social security coverage be extended to new Federal and postal workers.

We believe this proposal is wrong, and if enacted into law could be disastrous to the social security system, disastrous for the civil service retirement system, disastrous for the taxpayers of America, disastrous for the working men and women of America, and disastrous for Federal and postal workers. We also believe that, as harmful as the substance before you is, equally harmful is the process which has given rise to the consideration of this proposal in the first place.

Why are both the House of Representatives and the U.S. Senate considering legislation that would drag new Federal and postal workers under social security? Is it because the appropriate subcommittees and committees have studied this issue long and hard and have carefully evaluated the views of all those knowledgeable in the field, and after such study and such evaluation have come to the conclusion that extending social security coverage to new Federal and postal workers is sound, is wise, is fair?

The answer to that is No—a resounding No. The Congress of the United States is presently considering this question because the National Commission on Social Security has said it should. But why should the Congress of the United States yield its fundamental authority to a 15-person commission consisting of a minority of elected officials and the balance being representatives of big business or private consultants, with the sole exception of Lane Kirkland, president of the AFL-CIO?

It is your job, not the Commission's, to formulate legislation in response to the fundamental problems confronting the American people. It is your job and not the Commission's to wrestle with the questions of establishing a sound financial foundation for social security. It is your job, not the Commission's, to develop realistic, fair, and honest proposals which will meet head-on the short-term and long-term financing problems faced by social security.

So I say to you, the members of the Senate Committee on Finance, "Do your job." The Senate of the United States is considered one of the world's greatest deliberative bodies. The House of Representatives may say that because of its sheer size it must move rapidly by shutting off debate before all voices have been heard and all opinions have been aired and by wrapping legislation in neat packages which cannot be amended, but certainly this cannot be said of the U.S. Senate.

In fact, if there is one political entity in this country which is dedicated to a reasoned debate on the issues, to careful consideration of the diverse opinions surrounding the fundamental questions of the day, to deliberate and reflect on the appropriate legislative response, it is the Senate of the United States.

So I say to you once again, "Do your job." Honor your traditions. Don't follow blindly the recommendations of an unelected, unrepresentative National Commission. And certainly don't jam their recommendations quickly through the Senate in one untouchable "package" of proposals simply because you are told that "this is a toughie—don't tinker with it—it's so delicate that it will unravel, disintegrate before your very eyes." Nonsense. If the Commission's report cannot stand an objective evaluation, if its individual parts cannot withstand scrutiny, if it is so fragile, so delicate, that it cannot be picked up, looked at, poked at, yanked at, then it is a fraud.

And if you look at the issues carefully and honestly, if you stop regarding the Commission's report as gospel but, rather, study it, cross examine it, test it, then you will find that the Commission's report is wrong.

Here is simply one error, a $6 billion error. It happens to be in an area we know something about:

The Commission says that $20 billion will be added to social security during the next 6 years if nonprofit and new Federal and postal employees are covered under social security.

The Commission also says that $12 billion of the $20 billion can be attributed to the inclusion of new Federal and postal workers under social security.

This is simply wrong—very wrong. The fact of the matter is that, at most, $5.7 billion would be saved, and this $5.7 billion is based upon numbers supplied by the Government itself.

Just for openers, we note and emphasize that even if Federal and postal workers are added to social security, and even if the Commission's entire grab bag of band-aid solutions is adopted, the social security system is still in a negative .58 percentage-of-payroll posture over the long term, according to the Commission's own figures. In fact, the Social Security Administration's own actuaries have recently presented information to the Congress indicating that the funding gap would be at least 0.8 percent of payroll.

That is hundreds of billions of dollars. And, anyway you cut it, that means that after all this fancy footwork you are talking about adding more workers to an unbalanced, unfunded system.

That is just the tip of the iceberg. Don't forget that Federal and postal workers who retire under the civil service retirement system pay taxes on their annuities; so in the year 2015 or so, when the first Federal and postal workers covered by social security would begin to retire, the overall U.S. budget would lose important tax revenues which it would otherwise receive if these workers had been covered by CSRS.

The National Commission on Social Security is wrong—wrong about the short-term and long-term benefit social security would receive if newly-hired Federal and postal workers were to be hauled under social security.

If the Commission is wrong, then why is this entire matter of bringing new Federal and postal workers under the social security system being proposed?

For one thing, the Commission may be unaware of its errors. Also, perhaps Commission members are concerned about the public's perception of a so-called windfall which Federal and postal workers are supposed to reap from social security.

We believe that very few Federal and postal workers receive any windfall for their time in covered employment. Far more common are those workers who work both for the Government and a private employer at the same time and have been for many years.

But if there are windfall benefits for any Federal and postal workers, then Congress has the ability to correct the problem—that problem.

Congress need not blindly follow the Commission's recommendations if it is simply concerned about correcting what it considers to be an inequitable result coming from the present system.

No; Congress should not and must not blindly adopt the Commission's recommendations; there are too many numbers that don't compute.

Bringing newly hired Federal and postal workers under social security will simply hurt the civil service retirement system while not helping social security.

So, we urge you to perform your constitutional obligations of reviewing and testing the Commission's recommendations.

Some people are telling you that you don't have any time to test and to review the Commission's proposals. They are saying that 36 million Americans won't receive their social security checks this summer unless you enact this Commission's recommendations—all of them—right away.

I might add that we deliver most of those 36 million checks, so we know the people who receive them. We know the trauma that they face; we know the circumstances in which they are surrounded.

But I say, don't hold those 36 million American citizens hostage to this issue. Enact an interim measure to get over the problem that social security faces this July. An extension of interfund borrowing will do it. By passing such an interim measure you will make sure that workers I represent—the letter carriers of this country—deliver social security checks this July; but you will also be laying the groundwork for a true, honest consideration of the problems social security faces.

We are convinced that such an independent inquiry will lead the Senate to the inescapable conclusion that Federal and postal workers should not be covered by social security.

Thank you very much, Mr. Chairman, and I might add, just for the record, that the 250,000 members and their families that I represent unequivocally and unalterably want to find a solution to the problem of social security. We recognize it needs to be addressed, and we are four-square behind that.

[The prepared statement of Mr. Sombrotto follows:]

Mr. Chairman, my name is Vincent R. Sombrotto. I am President of the National Association of Letter Carriers, AFL-CIO, a labor organization comprised of over 250,000 members who are either presently employed as City Delivery Carriers by the U.S. Postal Service or who are retired from such employment. The financial stability of the Social Security System is of major importance to our members, most of whom have family members who are or will be dependent upon Social Security. Consequently, I am pleased to appear before you and the other members of the Committee.

Mr. Chairman, I appear before you to speak out as loudly as I can and as clearly as I can in opposition to the proposal of the National Commission on Social Security that Social Security coverage be extended to new federal and postal workers. We believe that this is wrong, and, if enacted into law, would be disastrous for the Social Security System -- disastrous for the Civil Service Retirement System -- disastrous for the taxpayers of America -- disastrous for the working people of America -- and disastrous for federal and postal workers. We also believe that as harmful as the substance before you is, equally harmful is the process which has given rise to the consideration of this proposal in the first place.

Why are both the House of Representatives and the United States Senate considering legislation that would drag new federal and postal workers under Social Security? Is it because the appropriate Subcommittees and Committees have studied this issue long and hard and have carefully evaluated the views of all those knowledgeable in this field, and after such study and such evaluation, have come to the conclusion that extending Social Security coverage to new federal and postal workers is sound, is a wise measure, is fair?

No! The Congress of the United States is presently considering this question because the National Commission on Social Security has said it should! But why should the Congress of the United States yield its fundamental authority to a 15-person Commission consisting of a minority of elected officials (four Senators and three Members of the House, five of whom are Republicans and two Democrats) and the balance being representatives of big business or private consultants -- with the sole exception of Lane Kirkland, President of the AFL-CIO?

It is your job -- not the Commission's -- to formulate legislation in response to the fundamental problems confronting the American people. It is your job -- not the Commission's -- to wrestle with the question of establishing a sound financial foundation for Social Security. It is your job -- not the Commission's -- to develop realistic, fair and honest proposals which will meet head-on the short-term and long-term financing problems faced by Social Security.

So I say to you, the members of the Senate Committee on Finance, do your job. The Senate of the United States is considered one of the world's greatest deliberative bodies. The House of Representatives may say that because of its sheer size, it must move rapidly by shutting off debate before all voices have been heard and all opinions aired, and by wrapping legislation in neat packages which cannot be amended. But certainly this cannot be said of the United States Senate.

In fact, if there is one political entity in this country which is dedicated to reasoned debate of the issues, to careful consideration of the diverse opinions surrounding the fundamental questions of the day, to deliberate and reflect on the appropriate legislative response, it is the Senate of the United States.

So I say to you once again, do your job. Honor your traditions. Don't follow blindly the recommendations of an unelected and unrepresentative National Commission. And certainly don't jam their recommendations quickly through the Senate in one, untouchable, "package" of proposals simply because you're told that "this is a toughie -- don't tinker with it -- it's so delicate that it will unravel, disintegrate before your very eyes." NONSENSE. If the Commission's Report cannot stand an objective evaluation, if its individual parts cannot withstand scrutiny, if it is so fragile, so delicate that it cannot be picked up, looked at, poked at, yanked at -- then it is a fraud.

And if you as United States Senators decide that you will not consider the question of Social Security financing on its merits, then you will have again abdicated your responsiblity on this issue -- much to the sorrow of those Americans who believe that the preservation of democratic values and practices depends upon the Senate of the United States to do its job, to honor its past, to debate the questions of the day on its own terms.

I say abdicate your responsibility "again" because the only reason a National Commission on Social Security was created was to find a solution to the Social Security problem was that the Congress of the United States -- both the Senate and the House, both Democrats and Republicans -- did not do its job in 1982. That's right -- you avoided the issue in 1982 because you were afraid to deal with it when it could have been dealt with. Instead, you allowed the President to create a political Commission which would -- and did -- arrive at a political solution. And the truth of the matter is, and every American understands this -- the problems facing Social Security are not political -- they are economic. To solve them requires thought. It requires fact. It requires study.

But what it does not require are quick-fix, band-aid solutions which are held together with rubber-bands. And that is what the Report of the National Commission on Social Security is. It is simply a high-pressured deal worked out under the White House gun by a small group of perhaps well-meaning individuals who simply didn't have the facts. They couldn't even agree on anything except the fact that there was a problem. Nevertheless, they still patched together a crazy quilt of half-baked ideas to cover up the fact that they really did not have a coherent approach to the problem. They now want to lead you through a game of blindman's bluff so that you won't perform your sacred duty to legislate.

But in the name of the people of this country, I plead with you to do only one thing -- YOUR JOB! Dont be stampeded. Don't be railroaded. Don't be bamboozled. STOP THE TRAIN! Study the issue. Consider the information and facts you are receiving from groups and organizations who differ with the Commission's findings. Poke at the Commission's figures and arguments -- and poke at ours! Yank at their numbers and then do the same with the data we are providing you with.

And if you look at this issue carefully and honestly, if you stop regarding the Commission's Report as gospel but rather study it, cross-examine it, test it, then you will find that the Commission is wrong. Here's simply one error. A $6 billion error. It happens to be in a specific area we know something about.

The Commission says that $20 billion will be added to Social Security during the next six years if non-profit and new federal and postal employees are covered under Social Security (page 2-5 of the Report). The Commission also says that $12 billion of this $20 billion can be attributed to the inclusion of new federal and postal workers under Social Security. That is simply wrong. Very wrong. The fact of the matter is, at most $5.7 billion* would be saved. And this $5.7 billion figure is based upon numbers supplied by the government itself.

Here's how the $5.7 billion figure was arrived at. According to the U. S. Office of Personnel Management, there will be an average of 157,000 new C.S.R.S.-covered federal and postal workers in each of the next six years. They will enter government service at an average wage level of $16,499 in January, 1984. If you do the proper calculations, and they are in the appendices attached to this statement, the very maximum that these new federal and postal workers would pay into Social Security over these six years would be $5.7 billion.

We believe that even the 5.7 billion figure is high. It assumes a level of federal employment through 1989 wholly inconsistent with the Reagan Administration's determined effort to cut the federal workforce to shreds.

But not only is the Commission wrong, very wrong about the short-term numbers, the Commission's calculation of the long-range savings is also wrong.**

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*In testimony before the Social Security Subcommittee of the House Committee on Ways and Means on February 8, 1983, I testified that the short-term savings would be $6.2 billion. At that time, I indicated that this figure was high. Subsequently, NALC's independent economice consultants learned that temporary employees who convert to CSRS status are generally in this status for only a short period of time. As a result, the number of these "conversions" was substantially reduced. For a full explanation of the method used to compute this $5.7 billion, see Appendix II to this testimony.

Just for openers, we note, and emphasize, that even if federal and postal workers are added to Social Security, and even if the Commission's entire grab bag of band-aid solutions is adopted, the Social Security System is still in a negative .58 percentage of payroll posture over the long-term -- according to the Commissions's own figures. (In fact, the Social Security Administration's own actuaries have recently presented information to Congress indicating that the funding gap would be at least .8 percent of payroll.) That is hundreds of billions of dollars. Any way you cut it, that means that even after all this fancy footwork, you're talking about adding more workers to an unbalanced, unfunded system. That's plain silly.

Even the Commission admitted this, although they tried to bury it. Listen to this from page 2-8 of the Commission's Report:

**As Appendix II indicates, the long-term savings from the coverage of new federal and postal workers is .18 percentage of payroll -- far less than the .28 percentage the Commission claims. The .18 percentage of payroll contained in Appendix II differs from the .21 percentage figure contained in the Appendix II attached to my testimony of February 8, 1983, before the Subcommittee on Social Security of the House Committee on Ways and Means. In calculating the long-term figure for my earlier testimony, NALC's independent economic consultants assumed that all federal and postal retirees receiving CSRS annuitites also received Social Security -- an assumption which would, of course, maximize the size of the long-term savings. Information recently acquired by our consultants indicates that only approximately 70 percent of federal and postal retirees also receive Social Security.

> "The additional OASDI taxes paid on behalf of the newly-covered workers over the long run will exceed, on the average, the additional benefits which result from such employment" --

and now comes the kicker --

> "assuming that the program is in long range actuarial balance." (emphasis added)

And assuming my name were John Riggins, I would be better able to plow through the "don't touch me" defense wall here.

But look at that "assumption." It's phony. The program is not in long-range actuarial balance. And the Commission's recommendations, even if adopted, still don't put the System in long-range actuarial balance. So what happens when the assumption falls? So does the whole stack of cards.

That's just the tip of the iceberg. Don't forget that federal and postal workers who retire under the Civil Service Retirement System pay taxes on their annuities. So in 2015 or so when the first federal and postal workers covered by Social Security would begin to retire, the overall U. S. budget would lose important tax revenue which it would otherwise receive if these workers had been covered by C.S.R.S. Now this loss isn't even part of the .58 -- or .8 -- percent of payroll which is the long-term deficit of Social Security itself. But it is a loss to the American taxpayer.

The National Commission on Social Security is wrong about the short-term and long-term "benefit" Social Security would receive if newly-hired federal and postal workers were to be hauled under Social Security.

It should be noted here that Robert J. Myers, Executive Director of the Commission, has made some recent attempts to dig out from under charges that these "benefits" are more illusory than real. We have rebutted each and every one of his statements in an appendix attached to this document.

If the Commission is wrong, and Rogert Myers is wrong, then why is this entire matter of bringing new federal and postal workers under Social Security being proposed?

For one thing the Commission may be unaware of its errors. Also, perhaps Commission members are concerned about the public's perception of a so-called "windfall" which federal and postal workers are supposed to reap from Social Security.

We believe that very few federal and postal workers receive any "windfall" for their time in covered employment. Far more common are those workers who work both for the government and a private employer at the same time for many, many years.

But _if_ there are "windfall" benefits for any federal and postal workers, then Congress has the ability to correct the problem -- _that_ problem.

Congress need not blindly follow the Commission's recommendations if it is simply concerned about correcting what it considers to be an inequitable result coming from the present system.

No, Congress should not and must not blindly adopt the Commission's recommendations. There are too many numbers that don't compute.

Bringing newly-hired federal and postal workers under

Social Security will simply hurt the Civil Service Retirement System while certainly not helping Social Security.

So we urge you not to follow the Commission blindly. We urge you to perform your consitutional obligations of reviewing and testing the Commission's recommendations.

Some people are telling you that you don't have the time to test and review the Commission's proposals. They are saying that 36 million Americans won't receive their Social Security checks this summer unless you enact the Commission's recommendations -- all of them -- right away.

But I say, don't hold 36 million Ameraicans hostage on this issue. Enact an interim measure to get over the problem Social Security faces this July. An extension of interfund borrowing will do it. By passing such an interim measure, you will make sure that the workers I represent -- the letter carriers of this country -- deliver Social Security checks this July. But you will also be laying the groundwork for a true, honest consideration of the problems Social Security faces. And we are convinced that such an independent inquiry will lead the Senate to the inescapable conclusion that federal and postal workers should not be covered by Social Security.

APPENDIX I

Rebuttal to Robert J. Myers

Federal employee organizations have recently been charged with several significant factual inaccuracies "by Robert J. Myers, the Executive Director of the National Commission (memorandum to member of the National Commission, January 31, 1983).

We will demonstrate, however, that it is Mr. Myers who has played fast and loose with the facts, despite his self-serving assertion that his statements are "completely objective and completely accurate."

The plain fact of the matter is that the National Commission, and Mr. Myers, deliberately avoided the fundamental reality that there is no free lunch.

A. The National Commission conveniently states that it "believes that an independent supplemental retirement plan should be developed for the federal new hires." (report, pp. 2-8) The Commission adroitly avoids the questions of the costs or benefits of such a plan. It simplistically notes that its proposal would be "just as private employers have plans supplementing the OASDI Program" (report, pp. 2-8), as though there is some standard in private industry which Congress could conveniently assume would be applicable. The reality, of course, is that there is an enormous variety of private plans, ranging from those with costs and benefits far above those applicable to current federal employees, to those at the other end of the spectrum. All such plans which are actuarially sound share a fundamental reality — one gets what one pays for.

The problem with confronting this reality, of course, is the political implications of one's approach. If one designs a supplemental plan which simply replicates the current federal employee cost-benefit picture, then the "savings" to be realized by the federal government will have been a sham. If one develops a plan that either reduces the benefit to employees, or increases their costs, then the myth of "no one gets hurt" will have been destroyed. Best simply to ignore the questions, and pass it along to a subsequent session of the Congress. Neat, but hardly responsible.

The best evidence of the validity of this analysis is that Mr. Myers, in yet another last-minute memorandum to no one in particular (February 1, 1983) addresses a "Possible Method of Modifying Civil Service Retirement System For New Hires if they are Provided Social Security." In this memo, Mr. Myers admits that, in order to produce a system that maintains approximately the same overall costs to both employees and the Federal Government, "the amount payable under CSR will be lower than at present" at age 65 and over, for OASDI - eligible recipients.

If the Congress intends to consider reductions of benefits for new federal employees, it should be forthright enough to accept the responsibility for that decision. We believe that such a decision would be disastrous, but at least we could deal with it on its merits, rather than with a phantom supplemental plan whose only form and function is to obfuscate rather than inform.

B. The revealing flaw in Mr. Myers analysis of our earlier criticism relates to his comments regarding the impact on the general taxpayer of the National Commission's proposal. Here, Mr. Myers is forced to agree with our point that the general taxpayer will suffer because income tax receipts with respect to the pension of new hires will be less under the National Commission's proposals than at present. (Myers 1-31-83 memo, pp. 4-5) Does he have an answer for that assertion? No. Does he quantify the loss? No. All he does, conveniently, is lapse into the old political bromide that federal employees should be in the same plan as private employees. That is not only a non-sequitur, it belies the "completely objective and completely accurate" mantle assumed by Mr. Myers.

While it may be understandable that the National Commission and Mr. Myers would interpret their mandate narrowly, dealing only with the Social Security System without any concern for the broad implications of their analysis and recommendations, Congress may not engage in the same tunnel vision.

Social Security does not exist in a vacuum. The implications for the entire federal budget of any proposal dealing with Social Security, must be examined.

Even assuming that there might be a short-term cash infusion and long-term actuarial advantage to the Social Security trust fund from inclusion of new federal employees, the Social Security System does not exist in splendid isolation.

We submit that the offsetting cost to the Federal Government and therefore, to the general taxpayer outweigh any conceivable benefit to the Social Security System. The National Commission ducked those issues. Mr. Myers answers them with political rhetoric. All we ask is that Congress ask the questions and get the answers.

C. Mr. Myers asserts that "of course, the Social Security Program would also be soundly and adequately financed under the recommendations of the National Commission on Social Security reform." (Myers 1-31-83 memo)

This is simply not true.

The National Commission concluded that the long range actuarial imbalance in the system was 1.8 percent of taxable payroll. (report, pps. 2-2 to 2.3) The Commission's recommendations covered only two-thirds of their projected 1.8 percent long-range deficit. (report, pp. 2-3)*

With all due respect to Executive Director Myers, we submit that his post-hoc effort to fill in the blanks of the National Commission's report are tainted by faulty analysis and inappropriately biased rhetoric. We are prepared to deal with the real facts, in the traditional searching inquiry of Congressional hearings.

The annexed economic analysis is a first step in the kind of detailed review that Congress traditionally requires with respect to an issue of such magnitude.

*As noted elsewhere in this document, the "benefits" calculated by the National Commission to "make up" this deficit appear inflated. To compound their error, it now appears that the National Commission also underestimated the long-range deficit. According to the Health and Human Services Secretary, Richard S. Schweiker, it appears that the deficit is really 2.1 percent. (testimony 2-3-83)

There has been a concerted effort to mislead the Congress and the American public regarding the impact of the coverage of new federal hires under Social Security.

The deception is based upon the simple trick of not talking about all issues at the same time. Thus, when the National Commission addresses the issue of bolstering income to the Social Security System, it ignores the impact of such coverage upon the tax revenues lost to the Treasury by the fact that Social Security retirement benefits for new federal hires will be non-taxable, whereas Civil Service Retirement benefits are taxable.

impact of such coverage upon the tax revenues lost to the Treasury by the fact that Social Security retirement benefits for new federal hires will be non-taxable, whereas Civil Service Retirement benefits are taxable.

The National Commission also ignores the impact upon CSRS of removing new hires from that system.

The National Commission also ignores the impact upon the new hires, except for its "belief" that a supplemental retirement plan, of undefined benefits and uncertain costs "should be developed."

Even with reference to its conclusion that coverage of new federal hires would benefit the Social Security System, "over the long run," the National Commission notes, without further consideration, "assuming that the program is in long-term actuarial balance." An assumption which the Commission's own staff revealed is not accurate.

APPENDIX II

An Analysis of the Short-Term and Long-Term Savings to Social Security of Covering New Federal Hires

I. Introduction

The purpose of this Appendix is to present figures that show that the short-term savings from bringing new federal hires into the Social Security System is much less than the amount cited in the *Report of the National Commission on Social Security Reform* (hereinafter referred to as the *Report*). We will also indicate why the long-run calculations cited in the *Report* may be biased upwards.

We estimate that at most, $5.7 billion in new revenues to Social Security in the years 1984 and 1989, would result from coverage of federal and postal new hires beginning in January, 1984. This contrasts with the Commission's figure of $12.1 billion. We are able to present fairly accurate estimates on the short-term savings because we have been able to acquire relatively accurate figures on new federal hires from the Office of Personnel Management. It appears to us from conversations we had with OPM, that those figures were not available at the time the *Report* was being completed. Thus the figures presented in the *Report* are most likely a best guess that in retrospect is inaccurate.

We estimate that coverage of federal and postal new hires, plus non-profit employees, under Social Security would result in a long-term savings to the System of no more than 0.18 percent of payroll. This contrasts with the Commission's figure of 0.3 percent. For the long-run estimates, we tried to establish upward limits on the savings to Social Security from having new federal hires in the system. We could not be as accurate in our long-run estimates as in our short-run calculations. That was because the requisite data for such accuracy are unavailable (just as they were for those who computed the long-run savings for the Report).

II. The Short-Run Calculations

To estimate the short-run savings, we needed the following information:

- Number of new hired from 1984 through 1989;
- Attrition rate of new hires;
- Starting salaries of new hires;
- Increases in wages other than general wage increases;
- Increases in wages due to general wage increases.

(We assumed that no new hires would begin to collect benefits from Social Security within the period 1984-1989.)

For information on new hires we turned to the Office of Personnel Management (OPM). We obtained historical data for 1977 to 1982 on new hires from Andrew Klugh at OPM. He made two sets of figures available to us: new hires in the federal government and new hires to the Postal Service. Both sets include entrants and re-entrants (i.e., those who have left government service and have returned) who are permanent employees and who have become part of the Civil Service Retirement System (CSRS).

The number for entrants and re-entrants is much less than total new hires. That is because many individuals are hired on a temporary basis each year by the federal government and never become part of CSRS. We do not want to include such temporaries because they are covered by Social Security and would add no new money to the system. It is only those who go on to CSRS but would now be covered by Social Security that matter for increased Social Security revenues.

The historical data obtained for entrants and re-entrants are as follows:

(FY)	Federal Government	Postal Service
1977	102000	N.A.
1978	108000	N.A.
1979	109000	N.A.
1980	96000	42000
1981	100000	48000
Average:	103000	45000

(N.A.: Not Available)

Beside entrants and re-entrants there is one other group that needs to be considered. It comprises temporaries who are converted to permanent status and go onto CSRS. According to Jim Hall of OPM, the number of individuals in that group is 40,000 per year. From other information we discovered that that group represents short-term individuals who are with an agency for the purpose of using up excess budget funds. So we assume those individuals were in the System for only 1/6th of a year (hence we only used 1/6th of 40,000).

Adding the average number of new federal hires, new postal hires and conversions yields a result of 154,667 (=103,000 + 45,000 + 40,000/6). The number we used was actually 157,000 because we assumed a round figure of 150,000 for new federal and postal hires and 40,000/6 for conversions that would become part of the CSRS system every year. We also assumed the number of new hires would be relatively constant from 1984 through 1989.

After having established the number of new hires it becomes necessary to establish the separation rate of new hires prior to retirement. There are no hard estimates on that rate (according to OPM) so we had to build up estimates from various data sources.

We estimated the separation rate by first determining the expected number of retirees from each new cohort entering. According to information from OPM, the retirement rate from the federal government (including postal) is currently 3 percent. Given the current size of the population of CSRS of 2.5 million (1.7 million federal and 800,000 postal) that indicates 75,000 retirees. If we take the average stay in government of those retiring as 30 years, then we have to view the 75 as coming from a cohort starting in 1951 when the federal government was much smaller. So we increased the 75,000 figure by the ratio of government employees in 1981 to those in 1951 to take account of the larger size of the federal work force. That increases the 75,000 figure to 90,000. The result is that we can expect that of the current 157,000 entrants, 90,000 will retire. That implies 100,000 will separate for other reasons.

After determining the number of separations, it is necessary to determine the time sequence in which new hires separate from the system over the 6-year period after being hired.

ACCESSION/SEPARATION RATES
ALL AGENCIES
FULL-TIME PERMANENT GS AND SIMILAR AND WAGE SYSTEM
FISCAL YEARS 1977-81

	FY 77	FY 78	FY 79	FY 80	FY 81
Total Accessions	8.9%	9.9%	9.0%	10.0%	9.1%
Accessions (less transfers)	7.7	8.2	7.5	8.4	7.7
Accessions (less transfers/ returns to duty)	6.5	6.9	6.1	6.8	6.2
Total Separations	11.9	12.1	12.6	13.6	12.8
Separations (less transfers)	10.5	10.6	11.0	11.8	11.2
Separations (less transfers/ELWOP)	8.5	8.0	8.7	9.1	8.8
Retirements	3.0	2.8	3.2	3.9	2.8
Quits	4.3	4.4	4.8	4.5	4.5
Discharges	0.3	0.3	N.A.	0.3	1.0
RIFs	0.3	0.1	0.1	0.1	0.2
Average Employment (thousands)	1,729	1,731	1,713	1,590	1,688

Source: U. S. Office of Personnel Management

According to some work done at OPM in the late 1960's and relayed to us by Jim Hall of OPM, about 2/3rds to 3/4ths of those that separate do so in the first 3 years, and 1/2 of those that separate in the first 3 years do so after 1 year. Those figures imply a range of 135,000 to 132,000 CSRS employees remaining in federal sevice after 1 year, and a range of 107,000 to 112,000 employees remaining after 4 years. Those figures match separate figures from Apendix IV-B of the Board of Actuaries of the Civil Service Retirement System Fifty-Seventh Annual Report transmitted to the House Committee on Post Office and Civil Service (March 17, 1980).

Based then on both those sources, we derived, for a cohort being hired, the number that can be expected to separate in each year of a 6-year period. By implication we have the number that can be expected to remain.

The following table indicates the number that can be expected to remain in each year of a 6-year period for each cohort of 157,000 currently hired.

New Hires and Those Remaining in Cohort

(000 omitted)

New Hires	157
Remaining in Cohort After:	
One year	132
Two years	112
Three years	109
Four years	106
Five years	102

From those figures and the assumption that in every year from 1984 through 1989 the number of new hires will be the same and will have the same separation rate, we have the following sequence of hires and retentions for each cohort hired from 1984 through 1989:

New Hires and Those
Remaining from Cohorts
Hired from 1984 through 1989
(000 omitted)

	Cohort Hired In						
Number Remaining In:	1984	1984	1986	1987	1988	1989	Total No. of New Hires
1984	157						157
1985	132	157					289
1986	112	132	157				401
1987	109	112	132	157			510
1988	106	109	112	132	157		616
1989	102	106	109	112	132	157	718

According to those figures, there will be 718,000 federal employees in the Social Security System in 1989 who would not be in the System absent a change in current law.

Having determined the number of new hires and the retention rate, it next becomes necessary to determine an initial salary and the rate of increase of that salary.

We determined initial salaries from two separate sources. For federal workers we had figures from OPM (enclosed) that indicate permanent new federal hires come in with an average salary of $14,673, based on the Annual Schedule of October, 1982.

Table B

NEW HIRES BY GRADE
FULL-TIME PERMANENT - GENERAL SCHEDULE & EQUIVALENT PAY PLANS
FY 81

Grade	Professional	Administrative	Technical	Clerical	Other	Total
1-2	-	92	1,082	10,357	490	12,021
3	-	38	3,641	15,588	1,489	20,756
4	-	187	4,857	8,564	3,817	17,425
5	1,633	1,729	3,752	2,675	976	10,765
6	-	32	816	789	595	2,232
7	3,720	2,160	1,546	343	55	7,824
8	-	33	204	25	8	270
9-10	3,796	2,705	1,006	59	9	7,575
11	2,070	1,291	303	14	1	3,679
12	1,534	797	178	11	1	2,521
13	590	323	24	2	2	941
14	421	157	-	-	1	579
15	558	124	-	1	-	683
16-18	21	8	-	-	-	29
All	14,343	9,676	17,409	38,428	7,444	87,300

Source: Occupational Dynamics Report - FY 81

As per the Reagan budget we assume that that figure will be frozen until October, 1983. We assume, though, 5 percent per year increases beginning with Fiscal Year 1984. So in January 1984, federal salaries for the average entrant will be $15,496. For postal workers, based on information from the NALC, we assume a starting salary in 1984 of $19,000 per year. Weighting the federal and postal salaries by the composition of new entrants, average starting salaries for new CSRS employees is estimated to be $16,499 per year in 1984.

After determining the beginning average salary, it is necessary to determine the rate of increase of each cohort's salary due to tenure (and independent of general wage increases). To make that determination we used data from the 1979 Current Population Survey. From that survey we estimated a regression relating the (natural logarithm of the) average wage to a constant, a tenure variable and a variable accounting for whether the individual is a federal employee or a non-federal employee.

According to the regression, wages increased with tenure according to the following pattern:

Increase In Wages From Year First Hired

Years from Hire	(percent)
1	4.83
2	9.69
3	14.55
4	19.39
5	24.20

According to the table, a new hire would make 4.83 percent more (independent of general wage increses) 1 year after being hired, 9.96 percent 2 years after being hired, and so forth.

To arrive at what the increase would be with inflation we overlayed those figures with a 5 percent per year general wage increase from 1984 through 1989. We thus generated the following wage patterns for new hires:

Average Wages In:	1984	1985	1986	1987	1988	1989
	Average Wages For Cohort Hired In:					
1984	16499					
1985	18160	17325				
1986	20068	19068	18659			
1987	21867	20952	20023	19100		
1988	23953	22960	21999	21023	20056	
1989	26148	25151	24109	23099	22075	21059

According to the table, the salary of an individual joining the federal service in 1984 will be $16,499 and will grow to $26,148 by 1989; similarly, the salary of an individual joining in 1985 will be $17,325 and will grow to $22,515 by 1989.

To determine the receipts to Social Security from new federal hires, it is necessary to apply the applicable tax rate. We assume the following tax rates: for 1984-1987 the tax rate is assumed to be 11.4 percent; for 1988 and 1989 we assume a rate of 12.12 percent. Those rates are rates assumed by the Report.

To calculate Social Security receipts from new federal hires we averaged together for adjacent years, for each new cohort, the figures on new federal hires or new hires returned (that reflects the fact that new hires don't all start in January or all leave in January); we then multiplied those figures by the corresponding average annual wage for the cohort and then applied the Social Security tax rate. Because not all wages are subject to Social Security taxes we use the following factor to reduce Social Security revenues: 99 percent in 1984 and 1985; and 98 percent for the remaining years.

Based on the methods we have outlined, the following represents the year-by-year total receipts to Social Security from new federal hires, and the cumulative total for each of the years:

Social Security Receipts From New Federal Hires
(Millions of Dollars)

	Annually	Cumulative Total
1984	146	146
1985	450	596
1986	745	1341
1987	1047	2388
1988	1477	3865
1989	1873	5738

According to the results we have presented the cumulative total for bringing new hires into the System will be $5.7 billion from 1984 through 1989. That is far less than the figures presented in the Report. According to the Commission the savings will be $12.1 billion, which is more than twice the amount computed by us.

The major sources of the discrepancies between us and the Commission are as follows:

1. The Commission, relying on Social Security Administration data assumes a starting salary in 1984 for the average new hire of $20,210. That figure is about a GS level 9. According to "A Statistical Profile of the Federal Civilian Workforce" published by the OPM in June, 1980, the average grade level of the work force was a GS level of 8.2 in 1979. The Commission thus assumed the average new hire will come in at a level exceeding that of the current average federal workers.

2. The Commission assumes the average number of new hires in 1984 will be 270,000. According to OPM the average new hires that in 1984 can be expected to go onto CSRS (which is the relevant consideration) will be 157,000.

III. Long-Term Calculations

To estimate the long-term savings to Social Security for including new federal hires we use the methodology of the Social Security Administration. That methodology views the cost and revenues to the system as being a percentage of FICA wages.

The model we use for estimating cost and revenues is biased towards giving results that are upper bounds on the savings that Social Security can expect from new hires. The model has the following aspects:

1. We will assume no inflation and that productivity growth in the federal and private sectors is zero; the import of that assumption is that we can use 1984 figures without having to update them for inflation and productivity;
2. We will assume that the federal work force will grow to a static equilibrium of 3 million full-time workers in CSRS (this is consistent with a 3 percent per-year retirement rate and 90 thousand retirees per year);
3. We will assume that of a cohort of 157,000 new hires, the quit rate after the 5th year, when the remaining number of workers is 102,000, will be about 500 per year; thus, after 30 years the number remaining will be about 90,000 (+102 -.5 x 25) and the entire federal work force will be covered;
4. We will also assume that 70 percent of federal workers work for 10 years after leaving federal employment;
5. We assume in-grade increases will be consistent with our regression; thus, the ending salary of the average federal worker will be about 30,969 on retiring, and we assume that those federal workers who work for ten years after retiring from CSRS earn an average of $35,000 per year after leaving federal employment;
6. We will assume that of the number of retirees for the fully matured system of federal retirees will be as follows: 580,000 non-disability annuitants 65 and over and 208,000 survivors of deceased annuitants; those figures were determined from the

number of survivors 65 and over in Appendix III-B of the Board of Actuaries of the Civil Service Retirement System, Fifty-Seventh Annual Report and the number of survivors of deceased annuitants 60 and over from Appendix III-E of the same report; those figures were updated to take into account the increased size of the federal work force to 3 million; of the 580,000 non-disability annuitants, we arbitrarily assumed a spouse present for half;

7. We will assume, for reasons that will be apparent below, that the average tax rate on CSRS annuities is 20 percent;
8. We assume that the applicable Social Security tax rate is .1212 and for simplicity we assume that is true for all years even though in the early years the rate will be .114; also for simplicity we assume that 98 percent of government wages will be covered;
9. Our assumption on FICA wages is that in 1984 they will be $1.397 trillion; that was determined by first dividing 1981 personal contributions to the old-age survivors and disability insurance by .057 and adding in 1981 self-employed contributions divided by .093; the results were then increased at a compound annual rate of 5 percent to yield the 1984 figure.
10. We assume that of the 12,000 individuals who leave government service after the 6th year (the difference between 102,000 and the 90,000 that retire) that 40 percent leave for other positions and 60 percent leave for reasons of disability; of those leaving for disability reasons, we assume equal numbers leave in each year and use the salary at the time of leaving for determining

disability benefits; and we assume that each one leaving has a spouse or a child; of those leaving to enter the private sector, we assume that they were in government an average of fifteen years, at an annual salary of $20,000, and in the private sector an average of 20 years at an annual salary of $25,000, and, on average, work ten fewer years than government workers; we assume the composition of the retired population is similar to that of the CSRS workers; the weighted incremental benefits to that group, from Social Security, for working in the government will be $283 per month.

11. Finally, we assume maximum benefits for 1984 will be raised to $692 per month.

The way our model is laid out we assume that for each cohort of 157,000 entering there will be no retirees from the 90,000 remaining in the cohort (and in government service) until 30 years have passed from the time the cohort entered. There will, though, be disabled individuals who leave in the intervening years. We assume that in the 30th year, that of those leaving, 30 percent retire and do not seek other employment. The cost to Social Security of covering those new hires is the entire benefit amount they would receive. For the remaining 70 percent, as we indicated, we assume 10 years would be spent working in private industry. For that 70 percent, the cost to Social Security is the incremental benefit amount due to the 30 years spent in government service. Because of the way benefits are skewed, the incremental benfit amounts of the thirty years (and hence the cost to Social Security) is quite small. We note that because we assume no retirees from the 70 percent of new hires until the 40th year after entering government service, the effect will be to bias upwards the estimate of the saving from covering new federal hires by Social Security.

Based then on the assumptions we have made, the Social Security system can expect an average $36.8 billion of FICA wages per year for the first 30 years government workers are included in Social Security. That would yield, on average, $4.38 billion to Social Security; the assumptions about disability yields an average of $600 million per year paid out for disability over the first 30 years. Finally, for those who worked in CSRS for an average of 15 years and in the private sector for 20, the incremental cost to Social Security over the 30 year period will be an average of $40 million per year. In all, the net savings to Social Security from new federal hires over the first 30 years is 0.268 percent = (4.38 -.6 -.04)/1397 x 100).

For the next 10 years before new hires retire, or those who left government service earlier retire, the net savings to the system is 0.320 percent. That is arrived at as follows: the full complement of government workers yield have FICA wages of $75.8 billion which yields $9 billion in Social Security revenues; the full complement of disabled workers will ultimately absorb $2.14 billion of those revenues. The complement of retired workers who worked in the government part of their working lives will absorb another $400 million per year. When those groups are averaged, the net savings to Social Security is 0.46 (=(9 -2.14 -.4)/1397 x 100). The difference between the 0.46 and 0.32 is accounted for by the 30 percent who leave government service and retire. They begin to retire in the 30th year after being hired. Based on our assumptions, they ultimately absorb $3.2 billion from Social Security. That number is incremented beginning in the 30th year until it equals $3.2 billion.

In the 41st year, the 7 percent of federal workers who would have retired from CSRS and gone into the private sector begin retiring. The net cost to Social Secuity of those workers is $1.6 billion. We increment the number of retirees from the 41st year through the 47th year until a full complement of retirees is present. We note that the full complement of government workers ultimately absorb $5.8 billion from Social Security.

Averaging in those who left the government early, those on disability, those who retired in the 30th year with those who would have retired from CSRS but worked in the private sector for a period of 10 years and who begin retiring in the 41st yields a net savings to the system of 0.132 percent.

From the 48th year through the 75th year the net savings is 0.055 percent. That is made up of $9 billion in revenue less $2.14 billion in disability payments less $5.8 billion in payments to retirees who would have been on CSRS less $400 million to retirees who left early (so we have 100 x (9 -2.14 -5.8 - 0.4)/1397 = 0.055).

By averaging the figures derived we come up with a maximum savings to Social Security over the next 75 years of new federal hires of 0.18 percent (= 30 x 0.27 + 10 x 0.32 + 7 x 0.132 + 28 x .055)/75).

We note, though, that that figure overstates the budget effect of new federal hires. One thing we have to take into account is the loss to the budget of taxes that federal retirees pay on Civil Service annuities. Taking into account those taxes (at the 20 percent rate assumed above) reduces the net effect of covering new federal hires from 0.18 percent to 0.16 percent. That is more than 40 percent below the amount of 0.28 implicitly used in the Report for the savings to Social Security of covering new federal hires.

Again, we emphasize that the figures we have presented here probably bias upward the savings to Social Security. Small changes in retirement lives, or a different retirement pattern than assumed here, could easily wipe out any of the savings to Social Security from covering new federal hires.

APPENDIX III

February 21, 1983

SETTING THE RECORD STRAIGHT:

A Reply by the National Association of Letter Carriers to the House Committee on Ways and Means' Staff Memorandum on Social Security Coverage of New Federal and Postal Workers

The enclosures contained with the February 7th letter from the leadership of the House Committee on Ways and Means, organize arguments in support of covering new postal and federal workers under Social Security into four major topics: the impact of coverage on the Social Security System; the impact on the Civil Service Retirement System (CSRS); the impact on the federal budget; and finally, the impact on affected workers. This document treats these major topics in a similar format below, and shows that the arguments put forth in the Committee's staff's materials are simply and conclusively wrong.

I. IMPACT ON SOCIAL SECURITY SYSTEM

1) The Ways and Means Committee's staff analysis states that by bringing new federal and postal workers under Social Security, "there would be an immediate short-term increase in social security trust fund revenues of about $10-13 billion, 1983-1989." This is simply wrong. An independent economic consulting firm has analyzed this question using numbers supplied by the government itself (chiefly from the U.S. Office of Personnel Management). It has reported back that the short-term increase in Social Security revenues would be, at most, $5.7 billion. (The NALC testified on February 8 before the Social Security Subcommittee of the Committee on Ways and Means that this increase would be $6.2 billion, given the most liberal assumptions; based on new information available, this number has been revised downward to $5.7 billion.) The Congressional Budget Office has independently studied the issue and their findings support NALC's contentions. Consequently, the $10-13 billion figure presented by the Committee staff is totally without foundation.

2) The Committee staff also states that long-term savings for Social Security resulting from coverage of new postal and federal employees would be .28 percent of payroll. Again, this is simply incorrect. NALC's consultants have studied this question carefully and conclude that the savings is only .18 percent of payroll — which means that the Committee staff document has exaggerated the long-term savings by one-half. Moreover, any

long-term savings is obviously an average between larger savings in the early years — which have been exaggerated — and much smaller savings (if not negative) in the later years as more and more federal and postal workers covered by Social Security would retire. In fact, our analysis suggests that in 50 years the savings would be so infinitesimal as to be almost negligible.

3) The Committee staff argues that whatever long-range savings there might be would result, in part, from the elimination of the so-called "windfall now available to Federal retirees who collect social security based on very few years of work covered by social security." In "Questions and Answers on Coverage of Federal Workers under Social Security" which was enclosed with the letter of February 7, the Committee staff states that "most" of the 73 percent of all Federal retirees over 62 who are entitled to Social Security benefits "are collecting a heavily-weighted social security benefit that they paid relatively little for, in comparison with a worker in private industry who made similar wages that were covered by social security." Absolutely no support is given for such an assertion. In fact, there is no evidence at all which would support the view that "most" of the 73 percent of federal retirees collecting Social Security are receiving so-called "windfall" benefits. Of course, there is no doubt that, given the present weighting of Social Security benefits, some postal and federal retirees do receive "windfall" benefits. Far more common, however, are those federal and postal employees who work for the government and a private employer at the same time for many, many years. As NALC testified before the House Committee on Ways and Means on February 8, 1983, Congress has the ability to correct any "windfall" problem which might exist. But correcting this problem does not require bringing new federal and postal workers into Social Security.

II. IMPACT ON THE CSRS AND THE FEDERAL BUDGET

The Committee staff offers several points purportedly explaining that coverage of new postal and federal employees would have no significant impact on either the Civil Service Retirement System or the federal budget as a whole. These points are vague, contradictory, misleading, and incomplete.

First, the Committee staff admits that revenues to the CSRS trust fund will be reduced as new workers pay into the OASDI fund instead of CSRS. It then asserts that benfits currently being paid out of the CSRS trust fund would not be affected. Nothing could be further from the truth. The Committee staff's assumption, that coverage of new hires would occur in splendid isolation, indicates severe myopia, if not blindness to reality. A cutoff of money to the CSRS trust fund from new hires would obviously cause the fund to shrink as benefits are paid out. Long before the CSRS goes bankrupt, which would probably occur in the next 20 years, action would be taken to cut benefits. Current proposals by the Reagan Administration to slash benefits are only a mild indication of the future attacks on the CSRS benefit structure that coverage of new hires would cause. This can be seen clearly without a crystal ball.

It is worthwhile to note in passing that the staff's memorandum frequently reminds Members of Congress that employees contribute "only" 7% of their salaries to the CSRS, while the employer contributes some 29% of payroll. The obvious implication is that federal workers are undeserving of their retirement annuities. This is an unjustifiable political attack, and not the "useful information" the Committee staff claims it to be. It would be far more "useful" to point out that in the private sector, various mixtures of employee and employer contributions support pension plans, and that furthermore, many plans are supported entirely by employer contributions.

Turning to the budgetary impact, the Committee staff asserts that since part of the federal government's contributions to the CSRS trust fund is an intra-governmental transfer, this contribution has no bottom-line budget impact. It is implied that the government could, at no cost to the overall budget, simply increase the amount of this transfer and thus ensure the sanctity of the trust fund. Once again, the Committee is clouding the real issues.

While intra-governmental transfers have no effect on the budget, benefit payments to CSRS annuitants do. These payments cannot be made through intra-governmental accounting devices. They do affect the CSRS trust fund and the bottom-line budget figures. Much of the money used to pay these benefits comes from employee and matching employer contributions to the CSRS trust fund. Social security coverage of new workers would reduce these contributions, and the CSRS trust fund would suffer a direct loss. Obviously, there would be less money to pay annuity benefits. Assertions that the difference could be made up with new intra-governmental transfers are belied by unavoidable reality: Payments to CSRS annuitants do not come from dollars conjured up in a vacuum; they represent government spending and are reflected in the budgetary bottom line. To fulfill its annuity obligations, the government must simply come up with the money. Coverage under Social Security means less money going into the CSRS trust fund, and the government will have to come up with the difference.

Besides clouding the issue of interfund transfers and benefit payments, the staff memorandum ignores the long-term budgetary impact of covering new federal and postal workers. Under current law most CSRS annuity benefits are subject to federal income tax. By covering those workers, tax revenues from the next generation of federal and postal retirees would be lost.

Along with its argumentative assertions regarding intra-governmental transfers and its lack of concern with long-term budgetary concerns, the Committee staff states, in an obvious contradiction, that Congress could indeed "appropriate funds to the CSRS trust fund to make up for revenues lost because of social security coverage." "However," the memorandum continues, "there would be no real effect on the security of the retirement benefits due in the future, since CSRS benefits are not guaranteed by existing revenues in the trust fund, but by the taxing power of Congress." These benefits "can be increased or reduced at any time by Congress, regardless of the reserves in the CSRS trust fund."

So, after arguing that the trust fund would not be in danger, the memorandum asserts that the fund is irrelevant — that Congress itself is responsible for the payment (or non-payment) of annuity benefits, and thus there are no guarantees. Concern about the trust fund, it is implied, is therefore misdirected. This argument is utterly specious. The CSRS trust fund was created specifically to protect the annuity rights of federal and postal workers. Savaging the fund imperils those rights. And it is not news that Congress has final responsibility for fulfilling the government's annuity obligations to its employees. These obligations include making benefit payments and preserving the health of the trust fund.

The Committee staff also asserts that long-run CSRS benefit obligations (the unfunded liability) would decrease as a result of coverage, as workers receive more of their total pensions from Social Security. By focusing on an effect occurring a full generation into the future, this statement ignores the immediate reality of benefit obligations to present postal and federal workers. CSRS trust fund obligations to these workers, it must be repeated, would be imperiled by coverage of new workers.

III. IMPACT ON AFFECTED WORKERS

The Committee staff memorandum addresses the impact of coverage on affected workers in three ways; they are treated separately below.

A. No Effect on Civil Service Retirees Claimed

The memorandum asserts that civil service retirees would not be affected by coverage of new workers under Social Security. The rationale given for this bold statement is that retirees' benefits now and in the future will depend on the Congress' commitment to continue to pay full benefits.

Such reasoning is bizarre. It assumes that Social Security coverage of new federal and postal workers would occur in total isolation from other events. It thus ignores the fact that Congress' commitment to continue payment of full CSRS annuity benefits will be affected by its action on the matter of Social Security coverage. But will that commitment to federal and postal workers be fulfilled in the face of a shrinking CSRS trust fund and rising federal deficits? The Committee staff conveniently fails to provide an answer. Instead, it implies that postal and federal workers should stand idly by while their retirement system is mutilated, piece-by-piece, beyond recognition.

B. Better Off Under Social Security?

The Committee staff memorandum claims on page 3 that "Many Federal workers would be better off if covered by social security." The memorandum identifies several areas where this is supposedly true; all of these examples represent severe over-reaching, and some are patently false.

1. Workers Leaving Federal Employment. The memorandum asserts that over half of all workers entering federal employment leave the federal service with no eligibility for CSRS benefits. And, says the memorandum, those workers who take their own contributions with them lose the employer's contibutions, and receive no interest on contributions after the first five years.

These claims are extremely misleading. First, workers leaving the government with less than five years of service have the right to take all of their contributions to CSRS, plus interest, with them when they go. Social Security-covered workers have no such right. Second, workers with more than five years of service who leave the government have the option of either taking their contributions with them, or leaving them in CSRS and becoming eligible for a CSRS annuity later in life. So those who leave without CSRS eligibility after five or more years of employment do so entirely by choice, and receive a refund of their contributions. Therefore, regardless of years of service, workers leaving federal jobs presently have more and better options than those covered by Social Security.

2. Annuity Reduction for Survivor Coverage. The Committee staff memorandum states that a CSRS-covered worker, but not a Social Security-covered worker, must take a reduction in his or her annuity to obtain survivor coverage. It also states that low-paid federal employees would, under social security, receive the "advantage" of a benefit weighted toward them.

These comparisons are phony both in concept and on the facts. First, CSRS is a full-benefit retirement system, while Social Security provides only an income floor for workers and their survivors; the two systems are not comparable. Second, the facts illustrate this principle quite clearly: Even the very lowest-paid new federal hire, who becomes a career civil servant and opts for the greatest possible surivor benefit and thus the greatest possible annuity reduction, will still receive more from CSRS than he or she would receive from Social Security — notwithstanding the weighting of Social Security benefits.

3. Gap in Social Security Disability Protection. The Committee staff asserts that federal workers leaving federal service are without disability protection for several years, because Social Security requires recent covered employment for disability protection. This gap in disability protection, which affects all workers without recent Social Security-covered employment, is an excellent reason for reforming the Social Security system. The problem has been studied in depth for over thirty years — by the Committee on Ways and Means and others — and solutions have been offered. But this gap is no excuse whatever for putting postal and federal workers under Social Security.

C. Proposed Supplemental Plan

The Committee staff's presentation also refers to a supplemental retirement plan which the National Commission on Social Security has recommended

Congress develop for those postal and federal workers who would be brought under Social Security. It should be emphasized that the Commission has not formally made any specific recommendations concerning the nature of such a supplemental plan. Consequently, those who are being urged to support Social Security coverage for new postal and federal workers are being asked to accept blindly assurances that there will be a supplemental retirement plan providing sufficient benefits so that no new postal or federal workers would be affected adversely. But the only specific supplemental plan which has been aired —that by the Reagan Administration —makes it clear that new postal and federal workers will have their benefits severely diminished. In testimony before the Subcommittee on Compensation and Employee Benefits of the House Committee on Post Office and Civil Service on February 16, 1983, Office of Personnel Management Director Devine unveiled an Administration proposal which would result in new postal and federal workers paying 11 percent in total OASDI and supplemental retirement contributions (as opposed to the present CSRS contribution of 7 percent), for future benefits which would be far less than those received by current federal and postal retirees! How, then, can Congress expect postal and federal workers to accept assurances that Congress will create an adequate supplemental plan when the only specific plan to be proposed would have a devastating impact on postal and federal workers?

Senator PACKWOOD. I assume you don't share the testimony of the previous panel, then, that an ultimate goal ought to be defusion of public and private employment into the social security system.

Here I am talking about the equity, not the problems of finance which you have well documented, but the standpoint of equity.

Mr. SOMBROTTO. Well, inequity in what regard? I mean, if you would be more specific, sir.

Senator PACKWOOD. A general feeling among those employees in the private sector that everyone ought to be included in the same system—public or private employment.

Mr. SOMBROTTO. Well, let me say this: As you well know, and certainly all the Members of Congress should well know, the civil service retirement system was enacted in 1920 as a staff retirement system. It was to be a pay-as-you-go system, and it was not intended that the employees of the Federal Government would pay all of the moneys into that system, that the Federal Government assumed the responsibility of making up any shortfalls that might arise over the years.

On the other hand, some 15 to 17 years later under Franklin Delano Roosevelt's New Deal, the Social Security Act was passed, and that was not a staff retirement system; the concept was to be a supplemental income for those who faced retirement in their later years.

So there are two different systems. They were created with characteristics individual to each system. Now, what is happening? You are trying to merge them into one system that makes social security a retirement system for all Americans.

I would ask anyone, the private sector citizens who work for companies—whether they be General Electric, or General Motors, or General Dynamics, or general anything—they have their own retirement systems within those corporations and companies. And we as taxpayers pay for those pension systems, whether we recognize it or not, because we buy those products. The companies are not so magnanimous and so generous that they absorb the costs of those systems; they merely just pass them along to us as consumers.

So for someone to say that we should put all of the plans under social security, I think that disregards the historic reasoning for these systems. Certainly we would address it in any context that the Congress would want to, upfront and beforetime, so that we could be guaranteed our benefits.

I would just pose this: We are negotiating with the Russians—and, certainly, don't misunderstand me; I would not put this great body, the Senate or the Congress of the United States or our Government, on the same level with Russia—however, our negotiators would not accept their word for it if they said they were going to disarm tomorrow; we would have to see positive proof. And all of the workers that I represent want to see what a new retirement looks like. If you are talking about supplemental pension plans, let's see it upfront, let us examine it, let's see that it meets the requirements that have been promised to us; and then I don't think we would have any problem with that.

Senator PACKWOOD. You would have no problem with what?

Mr. SOMBROTTO. With accepting the promise.

Senator PACKWOOD. Of universal coverage?

Mr. SOMBROTTO. We don't care what you call it; what we are interested in is what benefits that the members I represent derive from it.

Senator PACKWOOD. Oh, I understand that. Every one of the witnesses here has a particular group to represent that they should represent, and it is your obligation to represent them to the best of your ability. And it is our obligation to try to judge in the aggregate what is equitable for the entire country.

But I am just trying to find out if you share, as an ultimate goal, universal coverage.

Mr. SOMBROTTO. No; what I share as an ultimate goal is the ultimate security of all of the members that I represent and their families. That's what I am pursuing, and I don't see this vehicle as doing that.

If you are talking about some laudatory goal down through the years, a decade or so from now, that might be OK. I haven't seen any evidence of what kind of plan is to be put in place.

What we are interested in is that we have a retirement system, and we want to protect that system.

I want to say one thing more: Just yesterday there was a cartoon in the Washington Post. My Senator from New York, Senator Moynihan, sits there, and you are a distinguished Senator from the State of Oregon, and you sit there. And I say to you, "You are Federal employees." The cartoon shows us as bloated, as having huge jowls, and that we are ripping off the American public. And this is a terrible perception of people who dedicate their lives to serving the American public.

I think it is too long that we have allowed that kind of representation to be placed in the media, that we should be slandered. And that's what we are being, slandered, on a day-to-day basis, with no one speaking up for us.

And somebody says, "Well, why should Federal workers be treated better than all the rest of us?" And the actual fact is, we don't want to be treated better; we just want to be treated as well and as fairly. And we want to be thought of as men and women that pursue our jobs with a great deal of dedication, honor, and service. We enjoy working for the Federal Government, but we wonder if the Federal Government enjoys our services.

Senator PACKWOOD. I might say the Constitution guarantees a free press, not a fair press.

Mr. SOMBROTTO. Well, you know, sometimes I wonder how free the press is when it paints such one-sided pictures over and over again.

Senator PACKWOOD. Well, thank God they always paint Congress in a good light. [Laughter.]

Pat?

Senator MOYNIHAN. Mr. Chairman, I wonder if I could just interrupt to agree very much with what Mr. Sombrotto has just said.

This is nothing new, what you have had to say; but it is not less true, because it has been necessary to say it for a very long while.

It is also the case that we are doing a little better than we have done in the past, and we want you to know and all of you gentlemen to know that this panel is very much concerned with what we regard as your rights.

If I may just be allowed to go back a bit, I was the executive director, or whatever it was, of the Task Force on Labor Management Relations of the Federal Service, which President Kennedy established in 1961, and I guess I drafted the Executive Order 10988, which gave collective bargaining rights to Federal employee unions and union recognition.

I remember on the day we had to present this proposal to President Kennedy, it was a new idea, and we had to make our case. I remember saying to him in the Cabinet room at that time, "Look, with respect to the letter carriers, Mr. President, here's an organization that was organized as a free trade union in the middle to late 19th century. It is now getting to be the middle to late 20th century, and they are still waiting for recognition by their employers. You can't exactly say they are 'impatient' or 'demanding more than others would receive' "; to the contrary, what a record it was.

You were an original member of the American Federation of Labor; you had organized before that, I believe.

Mr. SOMBROTTO. We organized—just for the record—in 1889. We are the oldest national Federal or postal or public union in this country. We will be reaching our centennial very shortly.

Senator MOYNIHAN. You are going to have a centennial pretty soon. And the time came when you got recognition by the Federal Government. It took three generations. We are sensitive to that, sir. I think if you are defensive of the reputation of your fellow workers, you have a right to be. And that right will certainly be respected in this Chamber. I just wanted to make that point.

Senator PACKWOOD. Mr. Beers?

STATEMENT OF ROBERT BEERS, CONGRESSIONAL LIAISON, AMERICAN FOREIGN SERVICE ASSOCIATION, WASHINGTON, D.C.

Mr. **Beers**. Thank you, Mr. Chairman.

My name is Robert Beers. I appreciate the opportunity to appear here today on behalf of the American Foreign Service Association, the organization which for the past 60 years has represented the interests of the men and women of the Foreign Service of the United States. I, myself, am retired from the Foreign Service.

Mr. Chairman, we wish to register our opposition to recommendation No. 4 of the National Commission on Social Security Reform, which proposes in part that "coverage under the OASDI program should be extended on a mandatory basis as of January 1, 1984, to all newly hired civilian employees of the Federal Government."

We oppose this recommendation for two reasons:

First, the Foreign Service retirement and disability system as presently structured is a cornerstone of the Foreign Service personnel system. The men and women who are selected to join the Foreign Service commit themselves to a migratory and hazardous career which frequently entails considerable risk to health and to the stability of family relationships.

Indeed, in recognition of the extraordinary demands that Foreign Service life imposes upon its members, Congress has established a separate personnel and retirement system which is specifically tailored to meet the needs of the Service.

Like the military, the Foreign Service personnel system operates on an up-or-out basis. For this reason, section 811 of the Foreign Service Act authorizes Foreign Service personnel to retire at age 50 with 20 years satisfactory service. Social security benefits, of course, are not payable until age 65, or on a reduced basis at age 62.

Requiring that all new Foreign Service employees be covered under social security would, in our opinion, mark the beginning of the end of a retirement system which for the past 60 years has been a fundamental element in recruiting and retaining the high caliber professionals who, to quote from section 104 of the Foreign Service Act, are charged with the responsibility of representing the interests of the United States in relation to foreign countries and international organizations.

Second, we fully endorse the need to meet the funding requirements of the social security trust fund as defined by the National Commission. Nonetheless, we respectfully suggest that the short-term gain to be realized in this regard from blanketing all new Federal employees under the program is totally disproportionate to the probable long-term cost.

The Commission has said that social security must realize approximately $170 billion in additional revenue by 1989. Diverting the retirement fund payments of all new civil employees, including those of the Foreign Service, from the present retirement system into the social security trust fund would realize some $12 billion, or about 7 percent of this total.

Offsetting this short-term gain would be the Government's assumption of the long-term liability of underwriting the retirement annuities of those covered under the present system after the current trust fund balances have been exhausted. Some experts have calculated this cost as ultimately totalling as much as $185 billion.

In our view, Mr. Chairman, two separate issues are at stake here: One, restoring the social security trust fund to financial health; and, two, retaining the basic framework of the Foreign Service retirement system as an essential element in preserving the high professional standards which characterize those men and women who are charged with the responsibility of representing U.S. interests abroad.

Accordingly, we respectfully urge that the proposal to include all new Federal employees under social security be placed on hold until the long-term impact on the Federal work force of dismantling the present retirement system can be adequately assessed. Such an assessment should be carried out through the appointment of a special commission comparable in stature, competence, and range of viewpoints to the National Commission on Social Security Reform.

As for the Foreign Service, in this era of high technology and exceedingly complex international interrelationships, we feel most strongly that our country simply cannot afford to settle for less than the very best where the staffing of the Service is concerned. In this regard, it would only seem to make good sense to evaluate the probable results of abandoning a retirement system which has served this objective so very well for so many years.

Thank you, Mr. Chairman.

Senator PACKWOOD. Thank you very much, Mr. Beers.

Senator Heinz has a couple of questions, and he has to leave; so if I might interrupt before Mr. Peirce testifies and let Senator Heinz ask some questions.

Senator HEINZ. Mr. Chairman, thank you.

I might add that the reason I have to leave is that I am meeting Mr. Sombrotto with a group of letter carriers from the State of Pennsylvania at 2:15. We wouldn't want to disappoint them. [Laughter.]

Mr. SOMBROTTO. Senator, respectfully, they will make sure you don't disappoint them. [Laughter.]

[The following was received for the record.]

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STATEMENT OF

ROBERT M. BEERS
CONGRESSIONAL LIAISON OFFICER

AMERICAN FOREIGN SERVICE ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON FINANCE

ON THE REPORT OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

FEBRUARY 23, 1983

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First, the Foreign Service Retirement and Disability System, as presently structured, is a cornerstone of the Foreign Service personnel system. The men and women who are selected to join the Foreign Service commit themselves to a migratory and hazardous career which frequently entails considerable risk to health and to the stability of family relationships. Indeed, in recognition of the extraordinary demands that Foreign Service life imposes upon its members, Congress has established a separate personnel and retirement system which is specifically tailored to meet the needs of the Service. Like the military, the Foreign Service personnel system operates on an "up or out" basis." For this reason Section 811 of the Foreign Service Act authorizes Foreign Service personnel to retire at age 50 with 20 years' satisfactory service. Social Security benefits, of course, are not payable until age 65, or on a reduced basis, at age 62.

Requiring that all new Foreign Service employees be covered under Social Security would, in our opinion, mark the beginning of the end of a retirement system which for the past sixty years has been a fundamental element in recruiting and retaining the high-caliber professionals who -- to quote from Section 104 of the Foreign Service Act of 1980 -- are charged with the responsibility of "representing the interests of the United States in relation to foreign countries and international organizations . . ."

Second, we fully endorse the need to meet the funding requirements of the Social Security Trust Fund as defined by the National Commission. Nonetheless, we respectfully suggest that the short-term gain to be realized in this regard from blanketing all new federal employees under the program is totally disproportionate to the probable long-term cost. The Commission has said that Social Security must realize approximately $170 billion in additional revenue by 1989. Diverting the retirement fund payments of all new civil employees, including those of the Foreign Service, from the present retirement system into the Social Security Trust Fund would realize some $12 billion, or about 7% of this total. Offsetting this short-term gain would be the government's assumption of the long-term liability of underwriting the retirement annuities of those covered under the present system after the current trust fund balances have been exhausted. Some experts have calculated this cost as ultimately totalling as much as $185 billion.

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Accordingly, we respectfully urge that the proposal to include all new federal employees under Social Security be placed on "hold" until the long-term impact on the federal workforce of dismantling the present retirement system can be adequately assessed. Such an assessment should be carried out through the appointment of a special commission comparable in stature, competence, and range of viewpoints to the National Commission on Social Security Reform.

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Senator HEINZ. Let me say at the outset that it is my sense that one of the reasons that the Federal employees and the postal workers and the letter carriers are rather deeply concerned about a proposal that, on its face, doesn't appear to directly impact them—because what we are talking about is only new Federal employees, not any existing or retired Federal employees—is that they have developed a sensitivity in recent years, because anybody who has any relationship to the Federal Government, and I include politicians as well, have served as a very handy whipping boy.

There is reason for a little paranoia on the part of Federal employees, because every year we see some new proposal to single out the Federal employees on their pay and on their pensions. There is a set of proposals that the administration sent down a few weeks ago that I don't think anybody is going to take that seriously, because taken as a whole they are punitive. They are not reforms; they are some form of sadism where Federal employees are concerned.

So I can understand why Federal employees get a little nervous any time there is any change having to do with the civil service retirement system.

But having said that, I think we have to try to be as clear and objective about what is taking place here as possible.

There are a number of groups—you gentlemen represent some of them—that have said that covering new Federal employees under social security will "raise the cost of financing retirement programs for the Federal Government, to the Government and therefore to the taxpayer."

Now, it is my understanding that the cost to the Government in any year is the difference between benefit payments and employee contributions. Right now that difference is 30 percent of taxable payroll. The difference that you pay is 7 percent—that's the employees' tax.

My question is this: Are you saying that the Government is going to increase benefit payments or reduce employee contributions as a result of this new coverage or proposal?

Mr. SOMBROTTO. No. What I am saying is that a liability will be built into the system because no new funds will be coming in once the new Federal and postal employees don't come under the civil service retirement system. And if that were to happen, one universe will shrink while the other universe grows. The logic of that is that the money will be depleted; there will be less money going to a larger group. And when that happens, if the Federal Government meets its commitment, then it will have to fund those liabilities that are created. And they will be enormous. They will be much more than what we are talking about here, infinitely more than what we are talking about here.

Senator HEINZ. Well, that's an important point. Let's analyze that, if the chairman will let me.

Senator PACKWOOD. Go right ahead.

Senator HEINZ. The unfunded liability of the civil service retirement system, so called, as of today, is $500 billion.

Mr. SOMBROTTO. Well, that's if you want to use the dynamic figure. If you use the static figure, it would be $185 billion. But we won't quibble with a few billion here and a few billion there. [Laughter.]

Senator HEINZ. Let's use the so-called dynamic figure. Now, can you tell me what the funded liability is, the number that would compare to the $500 billion?

Mr. SOMBROTTO. No, I can't tell you.

Senator HEINZ. It is my understanding—I think we will probably have testimony on this from Dr. Schieber—that is one-fifth of the unfunded liability.

Mr. SOMBROTTO. Well, you are talking about the contribution from the individual employee.

Senator HEINZ. That's right.

Mr. SOMBROTTO. All right.

Senator HEINZ. So the point I simply want to make is that, because of the way the civil service retirement system is structured, if you took all of the employee contributions away from it, the Federal Government would only have to pay 20 percent more than it is now obligated to pay. Isn't that correct?

Mr. SOMBROTTO. Well, if you want to put it in that form. That's an interesting premise, but let me clarify it.

Senator HEINZ. But isn't it more or less correct?

Mr. SOMBROTTO. No. You can do anything you want with numbers, and you can figure it any way you want; but let me clear the record.

You are talking about that amount of moneys that the Government is obligated to put into the system—which the law requires. This has been in effect since 1920.

Now, since there is $96 billion in the civil service retirement fund presently, that's a 5-year reserve for our system. The $185 billion, or $560 billion, or less, or more, that you are talking about is a direct result of an act of Congress, and that was when they passed the cost-of-living increases in 1962 that were really designed to stop retirees from getting more money. I mean, it was interesting, and that whole logic became convoluted because as inflation reared its ugly head, then circumstances changed.

But let's be clear about that. When that law was passed there was a 1-percent inflation rate, and they talked about a 3-percent trigger mechanism; so we know why that was put in there.

Now, it's a little game everybody plays. Somebody tried to slip it to Federal and postal employees and it didn't work that way; now they are all screaming and hollering.

So when we talk about whether it is 20 percent or 22 percent, those figures are arguable.

Senator HEINZ. I am not trying to get to the specific percentage, but I am trying to make the following point——

Mr. SOMBROTTO. But I would say this, if I may——

Senator HEINZ. The point, just so we are clear on it, is—whether it is 20, 22, 18, whatever the number—the point is that the Federal Government right now, today, is obligated to pay roughly $4 out of every $5 of benefits we promised to the civil service retirees, including the postal workers. And what I hope everybody ought to take away from that is that that is a substantial commitment, and it is the kind of commitment that we are not going to break, either for the $4 out of every $5 or, if necessary, the $5 out of every $5, because we in the Congress do believe that there are such things as commitments. When made, they should be kept, and the rules shouldn't be changed in the middle of the game.

Mr. Chairman, thank you very much.

Mr. SOMBROTTO. Well, if I may add, if this kind of legislation is enacted then that commitment would grow even more. The moneys that would be put in would be even considerably more. So we are offering to help the Congress. That's our share. We don't want the Government to pay too much; we'll keep it at that level.

Senator HEINZ. The question is, what's in the best interest of the taxpayer, as well as what's in the best interest of the Federal employee?

Mr. SOMBROTTO. Well, we are taxpayers, too, Senator. We all pay taxes. It is interesting that everybody thinks that we get away with it. Even those who work in the Internal Revenue Service pay taxes, and I trust the Senators up there also pay taxes. [Applause.]

Senator HEINZ. If anything I said suggested you weren't taxpayers, forgive me. And if you aren't taxpayers, we won't forgive you—especially before this committee.

Thank you very much.

Senator MOYNIHAN. Who delivers the 1040—right? [Laughter.]

Mr. SOMBROTTO. Well, we get some very nice chores, and that is that we can deliver social security checks. And we also get some very unpleasant chores, that we have to deliver 1040 forms to every citizen of this country.

But we perform our chores well, and we think we should be appreciated for it and not be used as scapegoats in an effort to save social security.

Senator HEINZ. Thank you, Mr. Chairman.

Senator PACKWOOD. Mr. Peirce?

STATEMENT OF JAMES M. PEIRCE, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES, WASHINGTON, D.C.

Mr. PEIRCE. Mr. Chairman and committee members, my name is Jim Peirce, and I am the president of the National Federation of Federal Employees. I thank you for the opportunity to appear today to present NFFE's position on those aspects of the National Commission on Social Security Reform's recommendations relating to mandatory social security coverage for newly hired Federal employees.

I will submit for the record my prepared statement and briefly summarize its main points.

Since mandatory coverage for Federal workers was first proposed many years ago, NFFE has steadfastly opposed its inception. Our arguments are as valid today as they were then. Universal coverage would not help social security, it would destroy a perfectly good staff retirement system, and it would end up costing the taxpayers more in the long run.

Social security's major problems are well known to most everyone with even a limited knowledge of the system. The number of beneficiaries is growing too rapidly, and the average level of benefits exceeds the average amount of contributions.

Universal coverage would not solve either of these problems. Indeed, as the Federal Reserve Bank of New York logically noted in a recent report, "In the long term, universal coverage leads to an increase in the number of beneficiaries who will ultimately take more out of the system than they pay into it."

The most troubling aspect of the universal coverage debate is that the long-term liabilities are being ignored in favor of the short-term benefits.

Civil service retirement, the major attraction of a Government career, would also suffer. Once Federal employees enter social security, contributions to the Federal retirement program would dwindle and eventually disappear. In just a short time the retirement fund would be bankrupt and Congress would be forced to appropriate enough money every year to pay benefits.

I might add, relative to a previous question there, that Congress can give and Congress can take away, and we have no guarantees right now. Senator Ted Stevens admitted this morning that once we were put under social security that the rest of the retirement system wouldn't disappear or be changed to the point that our annuities would be worthless.

Even today we can see the Reagan administration looking ahead to this possibility.

Perhaps the most serious cutbacks ever proposed for civil service retirement are now before Congress. And as the Federal Government takes on more responsibility for the program's funding, we no doubt will see much harsher proposals in an effort to keep costs at a minimum.

There is no data to show the importance of the civil service retirement system to Federal personnel management, but there is no question that the system is by far the most attractive aspect of a Government career. What else is there, really?

Federal pay is now 14 percent below private industry and will probably drop even further behind this year. Despite popular myth, civil service benefits lag far behind private sector standards. The Federal Employees Health Benefits program, for example, once the finest in the Nation, is now one of the most expensive.

On top of all of this, the present administration is waging one of the most vicious campaigns ever seen against Federal employees, demeaning their integrity and competency at every opportunity.

Civil service retirement remains as perhaps the only aspect of Federal compensation which fairly rewards workers for their service to the Nation; yet, with universal coverage and the benefit cuts that would almost certainly ensue, nothing would be left to attract and retain talented individuals to Government careers.

Those who argue that universal coverage would reduce Government costs invariably cite the Government's contributions to the civil service retirement system as being excessive; but an examination of the Government's contributions to the civil service retirement fund belies this thesis. In fiscal year 1981 the Government paid $18 billion into the retirement fund, distributed in this manner: $4 billion to match employee contributions, $5 billion as the amortized amount of the unfunded liability that was created largely between 1920 and 1956 when the Government failed to meet its fund obligations, and $9 billion interest on the unfunded liability.

The fact is that the unfunded deficit originated because the Federal Government failed to pay its share into the fund from 1920 to 1956.

In 1969 when the law was amended to take care of the deficit, Congress decided instead to amortize the debt, exposing it to the devastating effects of inflation. In effect, the Government borrowed from the retirement fund, choosing to pay off the balance in annual installments rather than in a single payment.

As you can readily see, the only cost that would be reduced under universal coverage would be the money needed to match employee contributions, and these savings would only be on paper since the Government's contribution to social security as well as the supplemental Federal retirement program would experience an equal if not greater increase.

Keep in mind also that the tax revenues would be lost if Federal workers were brought under social security. In fiscal year 1981, Federal retirees returned $1.5 billion of their annuities to the U.S. Treasury in the form of taxes and $900 million to the States. Social security benefits are not taxable.

NFFE shares all of America's concern for the future solvency of social security and its relationship to the Federal budget and personnel system. In our opinion, however, mandatory social security coverage of civil servants would have a negative impact on each of these areas.

We hope, therefore, that the American people, the media and the Congress reject the concept in favor of productive alternatives.

This concludes my statement, and we will be happy to answer any questions, Mr. Chairman.

[The prepared statement of Mr. Peirce follows:]

Mr. Chairman and Committee Members: The National Federation of Federal Employees is very pleased to appear this morning to comment on the report of the National Commission on Social Security Reform. NFFE is the oldest union of Federal workers and has played a larger role in the creation and improvement of the civil service retirement system than perhaps any other organization. We are deeply concerned with the Commission's recommendation and welcome the opportunity to present opposing views. Our statement will focus almost exclusively on the proposals involving Federal workers and retirees: mandatory social security coverage for Federal employees hired after December 31, 1983 and the reduction in windfall benefits.

Mandatory Social Security Coverage

NFFE's major concerns regarding mandatory coverage of Federal workers are the impact on: (1) the Federal budget, (2) the Federal workforce and (3) the social security system. We continue to believe all areas would suffer if universal coverage were implemented.

BUDGET

Those who argue that universal coverage would reduce Government costs invariably cite the Government's contributions to the civil service retirement system. The system is funded through matching employer-employee contributions equal to seven percent of payroll. Critics argue, however, that Government contributions far exceed seven percent and if employees were brought under social security, much of this expense would be eliminated.

But an examination of the Government's contribution to the civil service retirement fund belie this thesis. In fiscal year 1981, the Government paid $18 billion into the retirement fund distributed in this manner: $4 billion to match employee contributions, $5 billion as the amortized amount of the unfunded liability that was created largely between 1920 and 1956 when the Government failed to meet its fund obligations and, $9 billion interest on the unfunded liability.

The fact is that the unfunded deficit originated because the Federal Government failed to pay its share into the fund from 1920 to 1956. In 1969 when the law was amended to take care of the deficit, NFFE proposed that Congress wipe out the deficit by paying in the amount due. However, Congress decided instead to amortize the debt, exposing it to the devastating effects of inflation. In effect, the Government borrowed from the retirement fund, choosing to pay off the balance in annual installments rather than in a single payment.

As you can readily see, the only cost that would be reduced under universal coverage would be the money needed to match employee contributions. And these savings would only be on "paper" since the Government contribution to social security as well as a supplemental Federal retirement program would experience an equivalent, if not greater, increase.

For example, if all new Federal employees were brought under social security next year, we can assume that by the year 2010 virtually all active civil servants would be under a combined social security-supplemental pension plan. Assuming further that few changes are made to the social security system, the Government's share of costs could easily reach 12% (7% social security, 5% supplemental) of an estimated $273 billion payroll, or $33 billion. However, the Government would still be making payments to the old civil service retirement system, which would amount to $59 billion. 1/ This would bring the total Government expense to $92 billion.

If, on the other hand, Federal employees remain within their current annuity program, Government contributions would total $89 billion in 2010, 2/ or actually $3 billion less than under universal coverage.

Keep in mind, also, that the tax revenues would be lost if Federal workers were brought under social security. In fiscal year 1981, Federal retirees returned $1.5 billion of their annuities to the U.S. Treasury in the form of taxes and $900 million to the states. Social security benefits are not taxable.

WORKFORCE IMPACT

There is no data to show the future impact of universal coverage on the overall quality of the Federal workforce. The most attractive aspect of a civil service career has been the Federal retirement program. Federal pay is, on the average, 14% below private sector rates for similar jobs. Health and life insurance, as well as other Federal benefit programs, are also below private sector standards. Morale, too, is at an all-time low as a result of the continuous stream of criticism from recent Administrations.

The Federal workforce has and is experiencing a brain drain due to these unwarranted attacks on the credibility of the Federal employee and their level of pay and benefits. One can only conclude, therefore, that forcing the Federal employee into the social security system, which is not wanted, will have a significant negative affect on the quality of future Federal personnel.

1/ Edwin C. Hustead, Actuarial Consulting Services, Hay Associates.

2/ U.S. Civil Service Retirement System; September 30, 1981 Annual Report.

Critics respond to this argument by pointing to the hundreds of applicants for every Federal job opening. But the critics have failed to evaluate the quality of the applicants. And it is a virtual certainty that more and more talented individuals would look to the Government only as an employer of last resort should the Federal retirement system be integrated with social security.

Keep in mind that the composition of the Federal workforce has shifted gradually from one largely clerical and blue-collar to one dominated by white-collar professionals. For the Government to be able to hire quality personnel, it must be able to offer a comparable compensation package. Yet, in the politically-charged atmosphere of Washington, it is doubtful that competitive salary schedules will be restored for a very long time.

DRAINING THE SYSTEM

NFFE's final concern with universal coverage is its impact on the social security system. Mandatory coverage of Federal employees would certainly generate new revenues for social security in the short-term. If all new employees were brought under the system, it is said they would contribute between $10 and $20 billion over the next six years (1984 - 1989).

While universal coverage would generate large amounts of new income in the near future, it would create even larger liabilities for the system many years from now when Federal workers under social security reach retirement age. Each dollar paid into social security yields more in benefits. According to a recent report by the Federal Reserve Bank of New York, workers entering social security today will get back 30 percent more than their investment after they retire at 65. Hence, the $10 - $20 billion which Federal employees contribute to social security over the next six years would create future liabilities of between $13 and $26 billion.

In its report, "SOCIAL SECURITY; An Analysis of its Problems," The Federal Reserve Bank of New York echoed NFFE's concerns by stating, "In the long term, universal coverage leads to an increase in the number of beneficiaries who will utlimately take more out of the retirement system than they pay into it."

This is the most troubling aspect of the universal coverage debate; that the long-term liabilities are being ignored in favor of the short-term benefits. Universal coverage, in fact, is simply a delaying tactic by which current policy-makers can push back the funding problems of social security and leave them for the next generation to solve.

Reduction in Windfall Benefits

To begin with, windfall benefits are not windfalls at all, but benefits earned by Federal employees under the same legal conditions that apply to all citizens. In fact, the Federal employee either working in private sector before or after Federal service has no choice of paying into social security as the law requires the social security tax be paid.

The social security benefit formula is constructed in such a way as to provide "social adequacy." The person whose income has been low over a career covered by social security, and the person with minimum quarters of coverage regardless of earnings, receive a relatively higher benefit than the person who has had high earnings over a long career of covered employment. Many of the public sector retirees who qualify for social security benefits do so on the basis of minimum or near-minimum periods of employment under social security, whether their earnings have been high, medium, or low.

No public sector retiree qualifies for a social security benefit without working and paying for it regardless of whether his contributions to social security were made before, during, or after his government service. Thus, whether the recipient has earned different retirement benefits, from government or private sector employment not covered by social security, is immaterial. The point is that an earned benefit is an earned benefit which must be paid. If a private corporation, in fact, chose not to provide a benefit earned by one of its employees, the corporation would be in violation of the law.

Why is it that individuals with substantial "non-earned" income, such as dividends on investments, do not see their social security benefits classified as windfalls and threatened with cutbacks. The reason, we believe, is that Federal workers make a much easier political target. Sound policy and equity have nothing whatsoever to do with it.

ALTERNATIVES

The difficulties facing social security are well-known: a serious cash shortfall over the next six years of between $150 and $200 billion created largely by the current economic recession; a population that is generally growing older and living longer, placing a greater burden on active workers whose payroll taxes are used to pay benefits for current retirees; skyrocketing health care costs. Universal coverage would not solve these problems. It would, in fact, aggravate them. A strong economy that will provide jobs for this Nation's over 12 million unemployed Americans could lessen many of our problems, including social security's funding shortfall. The following proposals offer other real solutions.

1. Extend indefinitely the current authority for interfund borrowing. This would give administrators greater flexibility during emergencies.

2. Separate the non-retirement aspects of social security from the retirement plan and fund these benefits through general revenues. These programs are based on need rather than employee contributions and should not, therefore, be funded by the payroll tax. Additionally, a study should be made regarding all social benefit areas with an eye to eliminating redundancy and consolidating programs.

By non-retirement benefits, for example, we mean payments to spouses and dependents made during the beneficiaries lifetime. This restructuring of the system will make it a more creditable old-age insurance program. Any restructuring of the system should be phased-in in such a manner that employees and retirees will not be adversely affected.

Social security was never intended to serve as the sole source of income upon retirement. There should be greater incentives for employees to participate in individual or work-related retirement plans, minimizing the future dependence on social security and pressure to expand the benefits from social security. Maximum contributions to Individual Retirement Accounts should be raised, and tax rates lowered on payments to pension programs. We must ensure that all citizens in this affluent society can maintian a reasonable standard-of-living upon retirement.

3. The Federal Government should embark on a comprehensive plan to contain future health care costs, which have risen nearly 75% in 3 years. If successful, the plan would save billions in annual medical fees and rein in the soaring cost of the Medicare program.

4. Under present law, social security benefits are reduced by $1 for every $2 of earned income over $6,000 a year received by a beneficiary between the ages of 65 and 70 (individuals over 70 are not subject to the reduction). Income from investments and pensions, however, are excluded from the earnings test. There should be a new earnings test to include income from pensions and investments. When income from these sources, work, and social security exceeds a high level, perhaps $25,000 annually, the excess would be subject to taxation and all such taxes would be returned to the social security trust funds.

5. Employees who choose to continue working at age 65 rather than receive their social security benefits have their benefits raised by three percent for each year they stay on the job. The three percent bonus is not a realistic incentive. It should be raised substantially if we expect older employees to remain in the workforce and ease the burden on the social security system. This proposal incidentally was also endorsed by the National Commission on Social Security Reform.

NFFE shares all Americans' concern for the future solvency of social security and its relationship to the Federal budget and personnel system. In our opinion, however, mandatory social security coverage of civil servants would have a negative impact on each of these areas. We hope, therefore, that the American people, media and the Congress reject the concept in favor of productive alternatives.

This concludes my statement. I will be happy to answer any questions.

STATEMENT OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AND PRESIDENT, PUBLIC EMPLOYEES DEPARTMENT, AFL-CIO, WASHINGTON, D.C.

Mr. **Blaylock**. Thank you very much, Mr. Chairman.

I am Ken Blaylock, and I appear here in a dual role as president of the Public Employee Department of the AFL-CIO as well as president of my own national union.

I have a complete statement that has been submitted for the record, and I will summarize that.

The **Chairman**. The complete statements of all of the witnesses will be made a part of the record.

Mr. **Blaylock**. Thank you very much.

I would first like to just add my endorsement to the remarks of previous speakers. I will try not to be redundant—an awful lot of the same points I know are being made, and they are being made because we have done an awful lot of analysis of the issue of social security, social security funding, the Federal retirement program, and we have been up and down with this administration, previous administrations, and two or three Congresses on everybody's numbers game as to what the actual cost of both systems are.

I would like to state just very flat out front the opposition the Federal workers and postal workers have to the inclusion in social security, and the opposition we as union leaders representing those people have. It has nothing to do, in reality, with the funding of the systems and with the dollar figures that are being thrown around; it's the demonstration of this Congress and previous Congresses and administrations of an inability to honor commitments made by Congresses in the past. In fact, today we are facing an issue where an administration and a Congress are proposing to ignore a commitment made by previous Congresses—whether we are dealing with the social security program or whether we are dealing with the Federal retirement plan.

It is a fear of the worker that, once this move is taken, knowing the financial impact that it will have on the actuarial structure of the program, that there is going to be increased pressure in the future, both political and monetary, to take away from the benefits of the current program that workers have paid into. They have gone through pay caps, they have gone through reduced working conditions, they have gone through a tax on their health benefits, and the list goes on. You are as familiar with them as I am.

But they know that there is going to be increased pressure to change the benefit levels which they feel they have earned—and they have put up with an awful lot—as dedicated public workers trying to serve the American public. And they have a fear that Congress will not honor that commitment, and I think they have reason to feel that way.

Now, let's talk for just a minute about the social security system.

The social security program does not have a structural problem, and it's a farce to lead the American people to believe that it does. The social security system has two problems: One, is the economic programs and the economic conditions of the country. There are 19 million eligible workers out there that are not working today that could be paying into this system. It is a pay-as-you-go system, and if that money was being paid into the system today, if we were anywhere close to full employment or if we were at 5-percent unemployment, the social security system would not have a financial problem.

The other problem that the social security system has is the unfair taxation laws of this country. If you will look at the funding of the social security system, we are told that the employer and the employee pay an equal share into financing the social security system, which is a pay-as-you-go system. But in reality the worker bears a little over two-thirds of that load. The worker pays income tax on gross salary. Out of that then comes a social security deduction, to help fund, hopefully, a program that will assure them some level of dignity in their old age—and nobody is getting rich on social security.

The employer then pays a social security tax—but then, that's a business deduction. He gets a break on his income tax. So you are putting, actually, a little better than two-thirds of the load on the worker.

Now, if you tax the employer on total payroll tax, like you do the worker, you would generate $233 billion for social security, as an alternate and more equitable way of financing social security.

So there is no need to continue to fool the American public and say that the Federal worker has this lucrative plan, and they are all getting rich off of it. The average annuity, by the way, is $998, and nobody is getting rich on that.

Senator MOYNIHAN. Per month.

Mr. BLAYLOCK. A month.

So let's frame the issue like it is, and the concern that the Federal and the postal worker has. That's what we are dealing with, and that's the reason we are here, and that's the reason we are in opposition to it.

In our statements that have been made and are being made in submissions that we are presenting everywhere, we bring all of the other points into play. But it is credibility that is our concern for the future.

We think this Congress has a commitment, and should honor their commitment to workers that are serving this country well. And that's where we are at on this issue.

[The prepared statement of Mr. Blaylock follows:]

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STATEMENT OF
KENNETH T. BLAYLOCK
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)
AND
PUBLIC EMPLOYEE DEPARTMENT (AFL-CIO)
BEFORE THE
COMMITTEE ON FINANCE

FEBRUARY 23, 1983

My name is Kenneth Blaylock. I appear here in my dual roles as President of the Public Employee Department, AFL-CIO, and the National President of the American Federation of Government Employees.

Mr. Chairman, we were impressed that a concensus package could be developed by the National Commission on Social Security Reform. However, we have serious reservations about two of the twenty-two primary recommendations: the extension of social security coverage to all newly hired federal and postal employees and the so-called "windfall benefits" recommendation. We are also discouraged by the environment and political rationale now being developed by the Congress to justify the enactment of the National Commission package without alteration.

Quite frankly, Mr. Chairman, I have never seen public policy developed under circumstances similar to those being used to justify passage of the Commission's package. The public is being told that the Commission's package must be accepted as is, not because it treats everyone fairly but because it hurts everybody. When has it ever been prudent public policy to formulate program changes because they harm everyone. It is not the role of the federal government to help people -- many of whom cannot help themselves? Why then must the American people be forced to accept a political solution to a real set of problems, in a purely political environment?

As you know, the Federal Government is the Nation's largest employer. Its civilian and military personnel are found in virtually every occupation imaginable. To be a "good" employer, the Government's personnel practices, including compensation programs, must be fair and equitable to assure the employment of competent personnel and the prudent expenditure of taxpayers' dollars.

My colleagues in the federal work force and I, are raising serious reservations and objections to the extension of social security coverage to newly hired federal and postal workers based upon the costs of such a policy change and the impact such changes will have on the existing Civil Service Retirement program.

We are opposed to being used as pawns in a Nixon style laundering operation designed to pump general treasury dollars - taxpayer dollars - into the social security program.

Given the governments reputation as a reliable bill payer, which is extremely dubious, and Congress' record of exempting themselves from laws regarding OSHA, Civil Rights, and probably Social Security coverage, we are doubtful of your true commitment to the bipartisan solution and your understanding of the problems involved in extending social security to newly hired federal and postal workers.

Simply put, Mr. Chairman, three issues dominate our justification for not endorsing the extension of social security coverage. They are, (1) the absence of a true understanding of the costs associated with creating a new retirement program while maintaining the existing Civil Service Retirement System, (2) what are the real costs of the Civil Service Retirement program, and (3) who are the newly hired workers you based the coverage issue on.

Mr. Chairman, the committee should be aware that there are 51 retirement programs covering over 5 million workers encompassed in 38 separate retirement systems for federal and postal employees covered under the so-called Civil Service Retirement System. Of the 38 systems, 3 are no longer being provided to new employees, 12 are clearly designed for Federal personnel and administered by Federal agencies, 1 is administered by a private organization, 7 are applicable to employees of nonappropriated fund activities primarily in the Department of Defense, and 15 are applicable to personnel whose Federal status is subject to debate. The 38 systems, including the 13 separately identified components, are as follows: (Next Page)

FEDERAL PERSONNEL RETIREMENT SYSTEMS

1. Uniformed services retirement system
    - --Commissioned Corps of the Public Health Service retirement system
    - --U.S. Coast Guard retirement system
    - --National Oceanic and Atmospheric Administration (NOAA) retirement system.
2. Civil service retirement system
3. Foreign Service retirement system
4. Federal Reserve Board retirement system
5. Tennessee Valley Authority (TVA) retirement system
6. Federal judiciary retirement system
    - --Supreme Court justices retirement system
    - --Widows of Supreme Court justices retirement system
    - --Federal judicial survivors annuity system
    - --Judiciary of the territories retirement system
7. U.S. Tax Court judges retirement system
8. Comptrollers General retirement system
    - --Comptrollers General survivor system
9. Director of Administrative Office of the U.S. Courts retirement system
10. Director of Federal Judicial Center retirement system
11. Central Intelligence Agency (CIA) retirement system
    - --CIA employees voluntary investment program
12. U.S. Presidents retirement system
    - --Widows of the U.S. Presidents retirement system

NONAPPROPRIATED FUND INSTRUMENTALITY RETIREMENT SYSTEMS

13. Retirement annuity plan for eligible civilian employees--Army and Air Force Exchange Service

14. Coast Guard exchange employees retirement plan

15. Navy Exchange employees retirement plan

16. Bureau of Naval Personnel nonappropriated fund employees retirement plan

17. Group retirement plan for civilian employees of the U.S. Marine Corps exchanges, recreation, funds, clubs, messes, and Exchange Service

18. U.S. Army nonappropriated fund retirement plan

19. U.S. Air Force nonappropriated fund retirement plan for civilian employees

QUASI-FEDERAL EMPLOYEE RETIREMENT SYSTEM

20. Savings association retirement fund, Federal Home Loan Bank Board

21. First farm credit district retirement plan

22. Farm credit retirement plan--Columbia district

23. The retirement plan for eligible employees of farm credit institutions in the fourth district

24. Farm credit system retirement plan--New Orleans district

25. Production Credit Association retirement plan for the New Orleans district

26. Sixth farm district group annuity plan

27. Employees retirement plan of the seventh farm credit district

28. Ninth farm credit district pension plan

29. Farm credit banks of Houston pension plan

30. Farm credit banks of Houston thrift plan

31. Berkeley farm credit employees retirement plan

32. Twelfth district farm credit retirement plan

33. Federal land banks of Columbia salary reduction thrift plan for farms credit employees

34. Farm credit district of Baltimore retirement plan

PRIVATELY ADMINISTERED SYSTEM

35. Teachers insurance annuity association/college retirement equities fund (TIAA/CREF)

--Private role employees of the Smithsonian Institution

--Graduate school of the U.S. Department of Agriculture

--Faculty members of the Uniformed Services University of the Health Sciences

CLOSED SYSTEMS

36. Federal lighthouse retirement system

37. Panama Canal construction service annuity

38. Panama Canal Zone cash relief program for non-U.S. citizens

The committee should know that in substance, the jurisdictional responsibilities for developing a "supplemental retirement plan" could easily require a process involving virtually every committee of the Congress.

An analysis of formally assigned committee jurisdictions clearly demonstrates the fragmented and sometimes ambiguous nature of retirement responsibilities. For instance, it would appear from the descriptions of their duties that the House Committee on Post Office and Civil Service and the Senate Committee on Governmental Affairs are responsible for all Federal employee retirement programs. As described in the Committee Reform Amendments of 1974 for the House of Representatives and in the Committee System Reorganization Amendment of 1977 for the Senate, these two committees are assigned responsibility for

for pay, promotion, retirement, and other benefits and privileges of members of the Armed Forces, and the Committees on Veterans' Affairs in the House and Senate are responsible for "pensions of all wars of the United States, general and special." No other committee jurisdictional statements mention Federal retirement.

Other committees, however, clearly exercise jurisdiction over retirement systems for agencies included in their responsibilities. The Foreign Service retirement system, for instance, comes under the House Committee on International Relations and the Senate Committee on Foreign Relations. In addition, both the House and Senate Judiciary Committees maintain responsibility for the Federal judiciary retirement system.

Committee jurisdictions cannot always be neatly categorized because retirement matters appear to cut across various committee jurisdictions. Potentially, 10 of 22 standing House committees, 9 of 15 standing Senate committees, and 1 select committee in each the House and Senate could contribute to Federal retirement system oversight and policy formulation. The above committees with retirement responsibility do not include the two Veterans' Affairs Committees.

Examples of specific retirement programs where committee jurisdictions seem unclear include the Public Health Service, Coast Guard, NOAA, Federal Reserve System, and the TVA. Jurisdiction over the Public Health Service, Coast Guard, and NOAA retirement programs is not clear because their benefits are primarily based on Armed Forces retirement provisions. Changes in the Armed Forces retirement package proposed and/or considered by the House and Senate Armed Services Committees could affect these three programs without direct consideration by the committees specifically overseeing these agencies -- the House Committees on Interstate and Foreign Commerce and Merchant Marine and Fisheries and the Senate Committees on Human Resources and Commerce, Science, and Transportation.

The Federal Reserve System and TVA, on the other hand, base their retirement system authority on general administrative statements in the law and not on specific legislation. Whether the appropriate committees include - retirement matters in their jurisdiction is not clear.

The committee would be well advised to consider how, and what structure it will take, to administer any "supplemental retirement plan" developed by the Congress and how this will mesh with the existing administrative system for the various Civil Service Retirement plans. For example, within the Civil Service Retirement System the administrative functions for each retirement system are generally performed independently and many organizations are involved. Administration of each of the 12 systems involves two levels -- Federal agencies whose employees are covered by the systems and the system managers. Agency functions over activities up to, but not including, claims processing. Normally, these functions are:

- -- Maintaining employee contribution records (for a contributory system).
- -- Maintaining/verifying service records.
- -- Preretirement counseling, including estimating annuities and completing retirement applications.
- -- Determining retirement eligibility.

System manager functions include all activities from processing retirement claims to maintaining retirees and survivors on the retirement rolls. These functions can include:

-- Processing of claims.

-- Annuity computation.

-- Annuity roll maintenance.

-- Developing systems and preparing studies.

-- Policy preparation and determination.

-- Budgeting, auditing, and accounting.

-- Fund maintenance.

-- Investment management.

-- Annuity check processing.

In most of the 12 systems, covered personnel are employed by one agency, and, for these systems, agency and system manager functions are performed by the same individual or group of individuals within the agency. For example, the U.S. Tax Court judges retirement system applies only to Tax Court judges, and one person in the Budget and Accounting Office of the U.S. Tax Court spends about 20 percent of his time performing both agency and system manager functions. On a larger scale, the TVA's Retirement Services Branch performs system manager functions for the TVA retirement system and it is also responsible for performing TVA's agency functions in relation to the system.

For the civil service retirement system, which covers employees in many Federal agencies, the Civil Service Commission's Bureau of Retirement, Insurance, and Occupational Health performs the system manager functions, whereas the personnel offices in the individual agencies perform the agency functions.

Do we really know, Mr. Chairman, what the costs would be if you in effect add both a new retirement plan with its own administrative costs and the added costs needed to cause the administrative interface between the Social Security Administration and the various existing administrative structure? We suggest not.

As you can see Mr. Chairman, there is no centralized management focus in the Government on retirement matters. Fragmented congressional committee repsonsibilities have probably contributed to the piecemeal evolution of Federal retirement systems. Development and implementation of an overall retirement policy would not necessarily depend on centralization of committee jurisdiction, but it could certainly be faciliated by such action. Administrative costs are a relatively minor part of total retirement costs, and many of the costs would still be incurred if one organization was responsible for administering all systems.

Mr. Chairman, critics of the Civil Service Retirement System often claim the system is unsound because the government makes such a large contribution as a percent of payroll compared to employers in the private sector. Sometimes, the comparison is made on actual contributions to the Civil Service Retirement System, other times, it is based on the so-called "normal costs" for the Civil Service Retirement System.

In our appendix, we show that if common assumptions are used for both the private sector pensions and the Civil Service Retirement System, the actual cost of the Civil Service Retirement System to the government would be approximately 25% of covered payroll while the actual cost for the pensions and social security for Fortune 500 companies is 18.4% of payroll. For the federal worker, the cost of Civil Service Retirement System is 7% of pay, whereas the private sector employee contributes 5.1% of wages for retirement.

While the government as employer contributes 35.9% more (as a percent of payroll) than the Fortune 500 companies, federal workers contribute 37.3% more of their wages compared to their counterparts in the private sector.

When using normal cost calculators, we show the cost differential for the federal government is 8.5% compared to the private sector which shrinks to 7.0% in 1988 if the OASDI tax increases are counted. These numbers illustrate two facts:

(1) The CSRS is a good retirement system which requires higher contributions from both the government worker and the federal government in its role as employer.

(2) The outrageous cost estimates being floated are based on inaccurate or erroneous assumptions.

If the Congress is truly concerned about the cost of Civil Service Retirement System then you do not want to close the Civil Service Retirement System and place new hires under social security. This move would effectively "call the note" on the unfunded liability of the Civil Service Retirement System and greatly increase the cost to the government (as a percent of currently covered payroll. We estimate this cost over the next six years as ranging between 45.9% and 42.5% of covered payroll.

Mr. Chairman, a commonly held misconception is that Civil Service Retirement is an extremely expensive boondoggle that guarantees that federal retirees will be wealthy in his or her older age. Nothing could be farther from the truth.

While the civil service retirement was once a very attractive feature of federal employment, it has been significantly eroded by budgetary actions since early in 1981.

The following list of facts may further acquaint you with the Civil Service Retirement System:

- Some 55% of federal annuitants DO NOT receive Social Security or any other form of annuity or pension;
- The average civil service annuitant receives $1046 a month, and from this pays an average of $64 a month for health insurance;
- 20.6% of all federal retirees receive less than $500 a month;
  30.0% receive less than $600 a month;
- 70.9% of all survivors of federal annuitants receive less than $500 a month;
- Less than 3% of all annuitants receive MORE than $30,000 a year;
- 80% of all federal retirees retire at age 62 or older; two-thirds retire at age 65 or older;
- Unlike Social Security recipients, federal retirees pay income tax on their pensions, and, in face, return 10.6% of their annuities to the Treasury, 1.2 billion in 1980;
- Despite President Reagan's campaign pledge, federal annuitants lost one of their two annual Cost-of-Living Adjustments in 1981, depriving annuitans of an average $563 last year; and
- Retired federal employees were the ONLY category of individuals who had a limitation placed on their annual COLA by the Congress with the support of the Administration.

(Source: Federal Fringe Benefit Facts, 1980 and 1981,
The Office of Personnel Management)

Mr. Chairman, on the issue of how much money will be generated fo the social security trust fund by extending coverage to all newly hired federal and postal employees, we question both the assumptions and the reveue estimates -- there are several -- being discussed.

As you know, the National Commission calculated the revenue gain at $18 billion. Since the release number has steadily declined. The Social Security Administration estimated the gain at $11.7 billion and just last week the Congressional Budget Office (CBO) released an estimate which is considerably lower.

We believe, as shown in our appendix, that a more realistic view of federal work force growth in coming years shows a revenue gain of $6.1 billion to social security. Clearly, the National Commission has erred in their revenue estimate in an attempt to inflate their numbers to make the reform package more palatable. In fact Mr. Chairman, it would take some 1.8 million new career federal and postal workers to generage $11.7 billion for social security and this number would result in an 85.7 percent replacement of the existing work force.

Mr. Chairman, another issue raised by the possible extension of social security coverage to "newly hired civilian employees' is whether or not this coverage would extend to employees of the District of Columbia municipal government? Last year then the Congress imposed the 1.3 percent Medicare on federal workers, the District municipal workers were excluded. Would this exclusion also apply to the extension of social security coverage to newly hired District employee? If not, there are obvious constitutional questions rising our of the "League of Cities v Usery" decision which would apply.

Mr. Chairman, many members of Congress, the media and the public have long been lead to believe that the Civil Service retiree and federal and postal employees are upset over the question of mandatory social security coverage for one reason -- greed. From the President down, the image has been created that we are a workforce that is overpaid over-compensated and a bunch of lazy, useless individuals. We despise the characterization. We are hard working, dedicated people who are under siege. For example, since the President took office, the Administration has made substantial reductions in pay and benefits for Federal workers and retirees. The President's budget for fiscal year 1984 again calls on the federal employees to make sacrifices by calling for a freeze on Federal pay and pensions. For the average Federal employee this will mean a loss of $4600 per year. An average retired Federal employee with an average annuity will lose over approximately $450 per year. When taken alone, these proposals may not appear like too much to ask. But let us examine ways in which the pocketbooks of Federal employees and retirees have been hit over the past two years:

- Elimination of the twice-a-year COLA: average cost -- $500 per retiree.
- Required payment of 1.3 percent Medicare tax: average cost per employee -- $250 per year.
- Limitations on retiree COLA by granting 50 percent of COLA to retirees under age 62 and delaying the COLA by one month in fiscal years 1983-85: average cost per retiree under 62 -- $70 per year.
- Increases in employee health premimums of an average 55 percent -- over the last 2 years and benefits were cut 16.5 percent.

- Since 1981 nearly 22,600 Federal employees have been adversely affected through reduction in force movements including: RIF's (11,400), lateral job assignments, downgrading, and early retirement.
- Furloughs of 2 days per month, or a loss of 1/10th of salary.
- Limitations on pay increases well below comparability:

	Actual	Comparability	Gap with Public Sector
Fiscal year 1981	4.8%	15.1%	10.3%
Fiscal year 1982	4.0%	18.5%	14.5%
Fiscal year 1983 (estimate)	0%	20.0%	20.0%

The President has again sounded the charge for an all out attack on the Federal work force. He has proposed sweeping changes to the Civil Service Retirement System which will require current workers to pay more into their retirement fund and ultimately receive less in benefits regardless of what the Congress does on the coverage issue in the social security package. He has proposed the elimination of the "in-grade" wage adjustment Federal workers earn -- let me reiterate that workers earn these wage adjustment.

In the past, with the federal pay picture clouded by politics, the benefit structure of the retirement system has been considered the most attractive asset for employment with the federal government. Therefore, continued low pay, coupled with possible major reductions in the retirement program, would wipe out any incentive for top flight people to join, and then to stay, with the federal government.

Mr. Chairman, on the subject of so-called "windfall benefits," Federal employees do not receive "windfall" benefits. Retired federal workers have never received benefits they were not entitled to by law. Changes have already been made to Social Security which will make so-called "double dipping"much more difficult. For example, a worker must now pay into Social Security for at least 40 quarters to qualify for benefits. And there is no longer a "minimum" Social Security benefit. We would maintain that existing law sufficiently addresses this issue and would urge the committee to cease complicity in the frontal attack on federal and postal workers.

Three other issues which have received minimal attention as Congress moves toward final action on a social security financing package which I would like to address are: 1) removal of social security from the unified budget; 2) designating the Social Security Administration as a free standing, independent agency; and 3) the question of increasing the retirement age with full social security benefits.

We support removing the social security trust fund from the unified federal budget. Including social security in the budget puts undue pressure upon Congress to make piece-meal programatic changes in benefits, much like the move in FY '82 to end the so-called "minimum benefit", which are not reasoned or sometimes necessary. Furthermore, given Congress' misuse of the whole budget process, we simply do not trust Congress to make prudent decisions. While our concerns might be adequately addressed by creating a separate budgetary function for social security, we still maintain reservations about congressional tendencies to usurp the spirit of the budget process. If program changes are necessary, we would prefer to debate them on their own rather than as part of a confusing package.

We would also support the logical recommendation that the Social Security Administration (SSA) be made an independent -- free standing -- agency. Given the size and scope of responsibilities of SSA, establishing SSA as an independent agency would improve its operations and aid Congress in determining operational and funding requirement necessary to improve agency operations.

I would also urge that you consider shifting the Administrative costs of SSA from the social security trust fund to the general treasury. Such a move would have a greater positive impact on the trust fund than bringing all new hires into the program over the six years.

We would advise the committee that we unequivocally oppose recommendations to increase the age of retirement as a means of addressing the long-term financing needs of the social security. Such a move has the impact of a reduction in benefits, will unilaterally change national retirement policy and will unduly punish workers who for reasons of health cannot work that on more year or two necessary to retire with full benefits.

Mr. Chairman, President Kirkland of the AFL-CIO has presented a list of four conditions which would have to be met for the AFL-CIO to support the extension of Social Security coverage to newly hired federal and postal employees. Those conditions were:

1. No reduction in the level of pension benefits now available to government workers.
2. No additional financial burden on government employees without a commensurate adjustment in benefits.

3. Preservation of the identity for government workers' retirement plans.
4. No diminution in the opportunity for these employees to improve their retirement systems.

We believe that these conditions are reasonable and would urge the committee's recognition of them. Federal workers need only look at how Congress managed the merger of the railroad retirement system and social security to determine how a yet to be detailed supplemental retirement program for newly hired workers would affect the existing Civil Service Retirement program. Some of the members seated here today remember the promises made to railroad workers. Many of those promises are being restated today. If you were in our position, would you feel comfortable hearing these same statements? We suggest not.

While it is safe to say that the Federal workforce is upset about the possible elimination of new revenues coming to the Civil Service Retirement System by placing newly hired federal and postal workers under social security, we have argued that such a termination could bankrupt the Civil Service Retirement System within twenty years and place undue political and fiscal pressure upon Congress to either increase taxpayer funding to keep the Civil Service Retirement System from bankruptcy or drastically cut benefits to currently eligible annuitants or both. We believe that the Congress does not know with any assurity how much will be generated for social security by bringing newly hired federal and postal workers. Finally, we are strongly suspious of Congress' committment to both preserving the existing level of Civil Service Retirement benefits for workers and your ability to develop a supplemental retirement plan for new workers that will not result in the creation of two classes of federal and postal employees within the federal workforce.

Again, Mr. Chairman, I thank you for this opportunity to appear before this committee. I stand ready to respond to your questions.

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APPENDIX

THE FEDERAL GOVERNMENT'S CONTRIBUTION TO THE CIVIL SERVICE RETIREMENT SYSTEM AS A PERCENTAGE OF TOTAL COVERED PAYROLL - FISCAL YEAR 83

Under Current Policy

1. Covered payroll = $64,000,000,000

   This estimate is derived from the Annual Report of the U.S. Civil Service Retirement System, September 30, 1981. We have adjusted the report's $64.6 billion estimate for covered payroll, which assumed as 5% federal pay raise for October 1, 1982, to reflect the 4% pay raise federal workers actually received.

2. Total government contribution to the Civil Service Retirement System = $20,884,277,000

Federal agency matching contribution	- $ 3,311,550
Postal Service matching contribution	- $ 890,925
Federal payment	$15,202,572

   a. payment of annuities under special acts

   b. transfers for interest on unfunded liability and payment of military service annuities

   c. payment for projected benefit increases due to pay raises and benefit liberalizations (amortized over 30 years)

Postal Service payment	- $ 1,136,961
Supplemental	- $ 342,269
Total	- $20,884,277

   Source: Appendix to the Budget of the United States Government Fiscal Year 1984, p. V-102; V-103

3. Total government contribution to the Civil Service Retirement System as a percentage of covered payroll

$$\frac{\text{Government contribution}}{\text{Covered payroll}} = \frac{\$20,884,277,000}{\$64,000,000,000} = 32.6\%$$

If Federal Workers Had Been Granted A Pay Increase Based on Full Comparability

When comparing retirement systems we must be sure to compare them to similar bases. If we use payroll in the denominator and one payroll has been artifically reduced we must compensate for that reduction when comparing retirement costs.

In the case of comparing pension costs in the federal government to the private sector, both the government payroll and the government contribution must be adjusted to reflect levels consistent with full pay comparability with the private sector.

1. Covered payroll = $71,024,000,000

   To obtain this new estimate, the federal and postal shares of the $64 billion payroll under current policy had to be separated out. This was done on the basis of the ratio between direct compensation of federal and postal workers for FY 83, derived from the FY 84 budget. The federal share ($48.545 billion) was then adjusted for the 14.47% gap between federal and private sector pay, yielding a new federal payroll of $55.569 billion. Adding back the postal share of total payroll results in the new total covered payroll of $71.024 billion.

2. Government contribution = $20,406,277,000

   The Congressional Budget Office has estimated that the 4% pay increase received by federal workers on October 1, 1982, actually reduced the net government contribution to the Civil Service Retirement System by $132 million because of the reduction in unfunded liability. If the full 18.4% comparability increase had been received, a simple extrapolation of the CBO estimate yields an additional $478 million worth of savings to the federal government.

   Source: CBO, "The Budgetary Treatment of Federal Civilian Agency Pay Raises: A Technical Analysis" p. 12

3. Total government contribution to the Civil Service Retirement System as a percentage of covered payroll.

$$\frac{\text{Government contribution}}{\text{Covered payroll}} = \frac{\$20,406,277,000}{\$71,024,000,000} = 28.7\%$$

Other Mitigating Factors

1. The frequent failure of the government to pay its match of employee contributions to the CSRS between 1920 and 1957 thereby creating the "unfunded liability" problem in the first place.

2. The failure of the federal government to grant full comparability pay increases in previous years.

3. The relatively poor performance of the CSRS investment portfolio, which is exclusively comprised of government securities.

The cumulative effect of these factors over time has led directly to greater unfunded liabilities, and thus, higher government contributions today than would have occurred had the federal government lived up to its compact with federal workers in the past.

Although the full impact of these factors is difficult, if not impossible, to quantify, a conservative estimate accounting for these factors would lower the governments contribution to CSRS to 25% of payroll.

APPENDIX

A COMPARISON OF EMPLOYEE AND EMPLOYER PENSION CONTRIBUTIONS IN THE FEDERAL GOVERNMENT AND THE PRIVATE SECTOR

1. Government employees contribute 37.3% more of their pay to their retirement than do their private sector counterparts.

Federal and postal employee contributions = 7% of payroll
Private sector employee contribution = 5.1% of payroll

The private sector employee contribution figure is derived from Bureau of Labor Statistics and Chamber of Commerce surveys of employee benefits in 1981 which found that (1) the effective OASDI tax rate was 5.1% of payroll for private companies, and (2) that 94% of all supplemental pension plans in the private sector were entirely employer-paid.

$$\frac{\text{Federal and postal employee contribution}}{\text{Private sector employee contribution}} = \frac{7\%}{5.1\%} = 1.373$$

2. The federal government contributes 35.9% more of its payroll to retirement plans than do Fortune 500 companies.

Federal government contribution to CSRS = 25% of payroll
Fortune 500 contribution to OASDI and Supplemental palns = 18.4% of payroll

The Fortune 500 contribution was obtained from a *Washington Post* editorial of February 4, 1983, which stated that "pensions in Fortune 500 companies run in the range of 22 to 25 percent of payroll, including both worker and employer social security taxes." We then took the mid-point of this range and subtracted the 5.1% of payroll represented by the employee contribution to OASDI.

$$\frac{\text{Federal government contribution}}{\text{Private sector contribution}} = \frac{25\%}{18.4\%} = 1.359$$

APPENDIX

NORMAL COST COMPARISONS

Normal costs are the percent of pay an employee would need to contribute to a retirement fund over his/her working life to provide for his/her retirement benefits.

Normal cost estimates for the Civil Service Retirement System are extremely sensitive to economic assumptions. Normal cost estimates for CSRS range from 36.5% to 31.2% (or 29.5% to 24.2% once the employee's contribution is deducted). CBO in surveying these estimates concluded the 31.2% figure was most accurate (see CBO, "Contracting Out for Federal Support Services", October 1982).

Continued success against inflation will drop this figure even lower.

Changes enacted in the FY 83 reconciliation reduces this by 1.3%, according to CBO, leaving 22.9% as the employer share of normal cost.

The Employer Benefit Research Institute (Sylvester Schieber, "The Cost and Funding Implications of Modifying The Civil Service Retirement System", August 19, 1982, p.3.) estimates the normal cost for private sector pensions as 7-12% over social security contributions. Normal costs then equal 17-22% of payroll. (Combined employer/employee contributions for OASDI are currently 10.2% of payroll according to the Chamber of Commerce survey of employee benefits).

Proposed OASDI tax increases, plus scheduled changes in the social security payroll ceiling will boost the private sector normal cost by another 1.5% by 1988.

APPENDIX

IMPACT OF CLOSING CIVIL SERVICE RETIREMENT SYSTEM

Dynamic unfunded liability is not really a useful concept in the current pay-as-you-go system. The government will not go out of business. Higher pensions will be paid by higher-paid federal employees in future years.

But if the system is closed, the dynamic unfunded liabilities would have to be amortized. If the debt were amortized over 40 years, the effect on the government contribution as a percent of the payroll is illustrated below:

Fiscal Year	(1) Covered Payroll if there are no changes in CSRS[1] (in billions)	(2) Current Government Contribution as a Percent of Payroll[1]	(3) Government Contribution if the Unfunded Liability is Amortized Over 40 Yrs.[2] (in billions)	(4) Amortized Government Contribution as a Percent of Payroll ((1) as a % of (3))	(5) Increased Government Contribution as a Percent of Payroll (Difference Between (2) and (4))
83	64.0	32.5 %	29.6	46.3%	13.8%
84	68.0	32.6	31.2	45.9	13.3
85	71.6	32.4	31.5	44.0	11.6
86	75.4	32.2	34.2	45.4	13.2
87	79.4	31.8	35.5	44.7	12.9
88	84.0	31.5	36.7	43.7	12.2
89	88.8	31.4	37.7	42.5	11.1

1) CSRS Annual Report, p. A-5

2) Sylvester Schieber, Employee Benefit Research Institute, "The Cost and Funding Implications of Modifying the Civil Service Retirement System", August 19, 1982, p.24.

APPENDIX

The National Commission Estimates of Revenue Gains to Social Security From Covering Federal and Postal New Hires

In order to evaluate the National Commission's short run (1983-1989) projections of revenue gains for social security from coverage of federal and postal new hires, four estimates are necessary:

1) An estimate of the number of new hires for each of the relevant years;

2) An estimate of the average starting salary for new hires;

3) An estimate of wage progression;

4) An estimate of the separation rate by years of service.

1. New Hires

To calculate the net gain to social security we need to identify those positions which would not be covered by social security under current law but would be covered under the proposed changes. This is a smaller group than the total number of new hires since many new hires are temporaries, who are covered by social security.

The relevant group can be divided into three sections:

1) entrants and reentrants to the federal government currently covered solely by the Civil Service Retirement System (CSRS).

2) entrants and reentrants to the Postal Service currently covered solely by CSRS.

3) conversions from temporary positions (covered by CSRS)

Data obtained from OPM indicates that for the past two years there were roughly 100,000 persons in the first category, slightly less than 50,000 in the second category and 40,000 in the third category.

This sums to approximately 190,000 new positions which would be in the social security system because of the proposed legislation. We assume this is a stable number. Given the Reagan Administration's determination to dismantle the federal government, this will over estimate the revenues to social security.

2. Initial Average Salary

An overall average salary will be the weighted average of the average postal new hire wage and the average federal new hire wage.

TABLE I

NEW HIRES BY GRADE
FULL-TIME PERMANENT - GENERAL SCHEDULE & EQUIVALENT PAY PLANS
FY 81

Grade	Professional	Administrative	Technical	Clerical	Other	Total
1-2	-	92	1,082	10,357	490	12,021
3	-	38	3,641	15,588	1,489	20,756
4	-	187	4,857	8,564	3,817	17,425
5	1,633	1,729	3,752	2,675	976	10,765
6	-	32	816	789	595	2,232
7	3,720	2,160	1,546	343	55	7,824
8	-	33	204	25	8	270
9-10	3,796	2,705	1,006	59	9	7,575
11	2,070	1,291	303	14	1	3,679
12	1,534	797	178	11	1	2,521
13	590	323	24	2	2	941
14	421	157	-	-	1	579
15	558	124	-	1	-	683
16-18	21	8	-	-	-	29
All	14,343	9,676	17,409	38,428	7,444	87,300

Source: Occupational Dynamics Report - FY 81

According to the National Association of Letter Carriers, the average postal new hire annual wage will be $19,000 in 1984.

For federal workers, we use the new hire information in Table 1 We estimate a FY 1984 average covered salary by calculating the total covered salary for each grade (assuming they are hired in at step one). Included in this estimate is the 4% pay raise projected in the FY 1983 budget resolution for FY 1984. (If the Administration's salary freeze for FY 1984 is passed by Congress, this will overestimate the 'revenues' to the social security system). The salaries in each grade were then summed and divided by the total new hires to arrive at an average covered salary of $14,973 for federal workers.

The weighed (2 federal employees to every 1 postal employee) average annual salary of a new hire is then $16,315.

3. Wage Progression

To generate a realistic wage progression, we need an estimate of a general pay increase as well as grade/step increases.

The general pay increases are, essentially, in the hands of Congress and the Administration. The intention in regard to pay is most clearly expressed in the FY 1983 budget resolution which projects a 4% wage increase for 1983, 1984, and 1985. Given this projection, we assume a 4% annual pay increase for 1983-1989.

To calculate the average grade/step increase, we use the CSRS 1981 Annual Report which states (based on plan experience) that a worker at age 25 would retire at age 55 with a salary 18.7 times his/her initial salary. This assumes a 5.5% annual salary increase solving the following for y.

$$x \cdot 1.055^{30} \cdot Y^{30} = 18.7x$$

x-initial salary
y-step=grade increase

We derive an average step/grade increase of 4.5% per year.

4. Separation Rates

Estimating separation rates by years of service is the most difficult calculation. OPM does not keep separation rates by years of service. The only relevant information from OPM is that two-third of those leaving government service prior to retirement do so in their first three years of service and one-third do so in their first year.

Using this information and the 1981 Statistical Abstract of the United States data on accessions and separations, we calculate separation rates by years of service as follows:

YEARS OF SERVICE	SEPARATION RATES
1	17.7%
2	12.8
3	9.1
4	6.1
5	4.0

These separation rates are consistent with the separation rates by age reported in the Board of Actuaries of the Civil Service Retirement System Fifty Seventh Annual Report (p.22).

We now can calculate the following set of tables:

- table projecting total employement covered by year;
- table projecting average salaries adjusted for the fact that new hires are hired throughout the year and step increases are earned throughout the year; and
- social security short-run revenue increase for each year.

Table 2

New Hires and Those Retained

					190000
				190000	156370
			190000	156370	136355
		190000	156370	136355	123946
	190000	156370	136355	123946	116386
190000	156370	136355	123946	116386	111730
1984	1985	1986	1987	1988	1989

Table 3 Average Annual Salary (Adjusted for Hiring Throughout the Year and Step Increases Throughout the Year) for Each Group of New Hires

					9925
				9543	20297
			9176	19516	21210
		8823	18765	20394	22164
	8484	18044	19610	21312	23162
8158	17350	18856	20493	22272	24205
1984	1985	1986	1987	1988	1989

Table 4 New Revenue to Social Security

	TOTAL COVERED PAYROLL (IN THOUSANDS)	OASDI TAX RATE	REVENUE TO SOCIAL SECURITY (IN THOUSANDS)
1984	1550020	.114	176702
1985	4324980	.114	493048
1986	7069020	.114	805868
1987	9891670	.114	1127650
1988	12879397	.1212	1560983
1989	16098977	.1212	1951196
		TOTAL	6115447

Total Social Security Revenue Gain 1983-89
6.1 billion

From this precedure we see that the social security can expect a 6 year increase in revenues of 6.1 billion from covering federal and postal new hires with social security -- considerably less than the National Commission's estimate of 11.7 billion. (It should be emphasized that we used conservative assumptions throughout our estimating procedure.)

For the National Commission to arrive at such a high revenue estimate, they must have either assumed inflated new hire estimates, unrealistic wage increases, very low separation rates or, more likely, a combination of these errors.

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The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. Yes, Mr. Chairman.

We have heard some very powerful testimony. Before Mr. Blaylock came in, Mr. Sombrotto was making some of the same points, and we were at some pains to agree with him exactly.

I would like to make a number of points and then ask a question of the panel if I could, just to try to resolve a situation which is in a certain way unique because Government is unique—there is only one, and it is the source of some of your concerns.

First of all, I make the point that you all know, that the present retirement system is unfunded. The funding is very weak; there is a large gap there.

Last year, fiscal year, the combined retirement systems paid out $19.5 billion in benefits. Of that, $14.5 billion was a general-revenue appropriation. It made up for years when we didn't put anything in, and so forth, but every year more than four times as much comes from general revenues as comes from the fund itself.

But you are worried. As you know, the Commission's proposal would not affect any present employee, working or retired—not at all. It would affect future employees, but we have to have a supplemental system that makes them whole and equal.

Let me tell you about a group of people that we are beginning to pay some heed to because of our job as members of the committee that is responsible for social security. Almost half the persons who enter Federal employment never stay 5 full years so that they obtain a vested right in the retirement system. When they leave they can withdraw their own payments, but they don't get any of the Federal side. For those persons, it is very clear to us—that's half of the people who enter the service system—they would be better off if, at the end of their 4 years, or 3, or 2, or whatever, they went on and took their social security to their next job, which most of them will do. In 5 years you can earn 20 quarters, which is half of your requirement to become eligible for social security finally.

But let me ask you this. You are right. Someone mentioned—was it Mr. Peirce? Did you mention Senator Stevens this morning, who said that Congress can do what it will? Well, there is no escaping that. That's our Constitution. That's what it means to have an organized Government—and none of you know about this better than the people who work for the Government or fund the Government.

What if we wrote into this statute, even so, a statement that full faith and credit of the U.S. Government stands behind any retirement system that is now in place, and entitlements that have been acquired under that existing retirement system?

Mr. SOMBROTTO. Well, I don't propose to answer for everybody here, but we have been so battered, bruised, assaulted, that we have become cynical in our approach to what the U.S. Government can deliver to those that work, in that, sir.

Senator MOYNIHAN. Well, when you see the current budget message, I wouldn't blame you. But you heard Senator Heinz say we are not going to do that.

Mr. SOMBROTTO. Even if that were true—I give you this proposition: Even if you men of good will who are interested in finding methods of curing what are serious social problems in our country, even if you signed in blood that agreement, what assurances would we have if you pass legislation, and the President vetoed it, and you couldn't override the veto? What would we do then? We would come to you, and you would say to us, "Well, we did what we could, and unfortunately it was not good enough."

I don't know what kind of assurances we want. I would believe that the kind that I would ask you for, you couldn't give us. And that is, to do it now. That's all we ask for, Senator. I believe, all our people we represent want is to help social security and be guaranteed the level of benefits that have been promised to us.

The problem arises because you can't do that. So what we say to you all is, don't rush into this because it is politically popular. Don't do it. Take the necessary time. And when you do it, make sure we have it up front, so we know what we are getting into.

Senator, you lived on 43d Street in New York City, and you know what it is to walk in dark alleys. And we don't want to walk in and come out the other end mugged. We are being mugged every day; we don't want to be mugged anymore.

So when you are asking us to accept individual words, we have no problem accepting individuals' words; but we are very reluctant to accept the promise that we will be taken care of.

In point of fact, that's what we are concerned about—that we would be taken care of. [Laughter.]

Mr. **Blaylock**. Senator, if I could respond to your question and the skepticism we have. The list goes on of the commitments that have been broken—pay comparability is one of them. Retirement is a part of a compensation. It is deferred compensation.

But when a package is put together that really does not address the problems of the social security system as it should—and we can take that apart and we can prove it, and we know that—when it is sold, as it has got to be bought and it has got to be put on a fast track and be bought, the criteria they use is to say, "Well, it hurts everybody."

Well, it seems to me that this country is about something other than hurting everybody; it's supposed to be something about helping everybody.

And then when I hear Congressmen and Senators say, "Well, we're getting concerned about this group of Federal workers who only stay in the system a short time and they don't get anything out of it, there's no portability," we're damn wary of Greeks bearing gifts, if you will pardon the expression, because we have had too many of those gifts.

So, again, I am telling you it's a credibility problem. I understand the legal situation; I understand Congress can't bind a future Congress. And you can say, "We're totally committed to it, and we cut our wrists, and we swear in blood, and that's the best you can do." But the point is, you are going to generate over $5 billion here, so it's not going to help social security.

I think Vinnie is right; I would agree with that. If you can convince it would help social security, our people are for it. If you convince us they are not going to be hurt, they are for it. How can it be structured so those assurances are carried out? And that's the problem we are dealing with—you can't do it on a fast track.

Mr. **Peirce**. Senator, if I might.

First off, I would like to make a couple of points. Portability is something that has come before us before, and I think there are probably some answers to that.

What we have said is, we have two different systems here. And what we should be moving to do, instead of putting Federal employees under one that already has a problem, let's look at them separately and solve the problems in each of them, because each of them are good.

To add one thing to what Ken said, I talked to Bob Beck of Prudential some time ago—he was on the Commission and is chairman of the Business Roundtable, which has also proposed that Federal employees come under social security.

His only reason, when we finished our discussion of something over an hour, was, "Well, everything you say is a good argument." I said, "Well, if that's true, why do you contend that Federal employees must come under social security?" He said, "For one reason—to add credibility."

Senator, I say this: If a lot of us on the Hill, if the administration, if the media, would quit telling the American people that the Federal employee is to blame for everything, and that by putting the Federal employee under social security we'll solve the problem, and tell them the truth, then the lay public doesn't give a damn whether Federal employees are under social security or not. But as long as they are being told that you've got to put the Federal employee under social security to solve the problem here and there, what else are they going to believe?

And, yeah, from that perspective, it would have some credibility. But that's the wrong perspective to be followed.

The **Chairman**. Senator Bradley?

Senator **Bradley**. Thank you very much, Mr. Chairman.

First of all, let me thank the witnesses for their testimony. I think they make some very important points, and I think Mr. Sombrotto is certainly correct in saying that in an atmosphere where just a few hours ago the head of the Federal Government personnel proposes to increase the amount that you put away in your pension from 7 to 11 percent, and reducing your benefit from the high-three to the high-five, it is at least a legitimate question in your mind as to whether there will be a continued commitment, at least from those who have made those kinds of proposals.

So let me say I understand your worry. I don't know how to answer your worry, though. I think that one of the things that you raised today, and I think Mr. Blaylock did, and I think it is an important point: If we had already done a supplemental pension system that would go with the movement of new Federal employees into social security, that might be reassuring.

Would the rest of you agree that, if you knew what the pension supplemental system was going to be, that that might—would that be reassuring to you?

Mr. **Sombrotto**. Certainly it would be a sense of reassurance, there is no question about that. At least we would have an opportunity to shape and to play a part in that supplemental plan. We might not like all of it, but we would have followed a process.

The most disturbing thing to me personally as a citizen—and now I speak not as the president of the National Association of

Letter Carriers; I speak as a citizen of this great country—is the way this legislation is being proposed. It troubles me.

It troubles me when I talk to Representatives on the House side who say, "Well, we can't examine this. We can't put this out for a deliberate review and examination, because it has to be on a fast track." That's troublesome to me because the Congress of the United States and our forefathers envisioned a system that would give everyone an opportunity to play a part and a role in any act of Congress that has an impact on their lives.

And I am troubled when I am told that this will come to the floor of the House for the closed rule; they will either vote it up or down. That's a terrible way to deal with this problem as a whole, and that is what is being done.

Senator **Bradley**. Well, in answer to my question, the answer is yes, you would feel better if you had a supplemental pension system?

Mr. **Sombrotto**. I would feel better, Senator. And if you all would like to sit down, we would help you prepare it. We would work it out. That's why we offer that suggestion.

Senator **Bradley**. Good. I think that's a positive suggestion, and I certainly would be one that would want to work to develop that kind of supplemental pension system.

Now, trying to get back to your question about you have this great doubt that the Congress will fulfill its commitment to Federal workers.

Against the atmosphere of the last 2 years in which you have seen, in my view, an assault on the Federal worker, an unfair assault on the Federal worker, you do have the background of the previous 30 years in which commitments to Federal workers have been fulfilled.

So, while you are aware and I'm aware that one Congress can't bind another Congress, you do and you should have some reassurance that there are, I think, many of us—and I don't think they are just Democrat; I think they are Republican and Democrat—who want to keep that commitment to Federal workers, who insist on keeping that commitment to Federal workers.

It seems to me we are in an atmosphere here now where we have to move on and try to deal with the supplemental if we are going to indeed move new Federal workers into the system.

So speaking from one Senator's perspective, I think you have a legitimate case to make. I think you have made it well. And I don't think that the package as it is now constructed is absolutely in concrete, but I do think that there is an effort made, and a legitimate effort made, to bring the Federal workers in as some part of the system and to try to address your real and legitimate questions directly.

Mr. **Sombrotto**. Well, I certainly appreciate that, Senator. I would just add this, parenthetically: I am terrified when members of this administration's Cabinet speak in terms of being on God's side because they are right and all of the rest of the people being on the dark side.

So I am very encouraged by what you said and hope that that kind of intelligence will prevail with the rest of your colleagues in the Senate.

Mr. **Blaylock**. Senator, could I respond to the idea of building a plan that we can look at and have involvement in? I would like to point out two reasons for that:

One, most people think there is one Federal retirement system, but there are 52 Federal retirement programs under 38 systems. It's a very complex issue. And in those 52 is also the congressional retirement program. But there are a tremendous number of them, so we have a complex situation.

I think the only way to answer this dilemma we are in now, as Mr. Peirce pointed out—our system has some problems; yes, it does. And we as union leaders representing those people are very concerned about those problems. And they are not near as serious as some people think, but they do need to be dealt with. The social security system has problems.

I think the only solution to the current dilemma we find ourselves in is, if there is going to be coverage of Federal workers in the social security system—and we would never say that workers can't get equal benefits out of two systems, or three, or five; because we see it in the private sector—but the involvement and the development of a responsible process is what is important. And I think the only way you could address that would be to defer this coverage, conditioned on developing those kinds of programs, until it gets a proper analysis. And that's what we are saying to you people here—let's don't ride this fast track and cost the Government more money. You are going to if you move with the Commission proposal, and you are going to hurt both programs, and we are not going to resolve the problems of either. It is going to take some legislative review, and I don't think you can do it unless you do some deferment on this act.

Senator **Bradley**. Thank you.

Mr. **Beers**. Mr. Chairman, I would like to make two quick observations. I am here, of course, on behalf of the Foreign Service.

One of the things I think that we have found unfortunate is a statement in the President's budget that the employee pays 20 percent of his retirement and the taxpayer pays the other 80 percent.

I would like to draw upon a personal experience. Before going into the Foreign Service I was the Department of State Examiner in the old Bureau of the Budget. I hate to say this, but this was back in the Truman administration, a long time ago.

We would go down every year with the statutory amount which the law called for to be deposited in the Foreign Service retirement and disability trust fund. And the reply always was that "These moneys won't be needed for 30 to 35 or 40 years, and somebody else will be sitting in this chair at that time," so it was brushed aside.

The second concern that we have is, in a sense we are unique in that the Foreign Service retirement system is an internal part of the operation of the Foreign Service—we have a pyramidal personnel structure. People leave the service for overtime ingrade, and the retirement system must accommodate itself to that. This is one of the things that we cannot emphasize strongly enough. In that sense we are different from the regular civil service procedures.

Thank you.

Mr. **Lyman**. I wonder, Senator, if I can add just one remark.

Senator Bradley was talking about a supplemental program, and of course that could well be the vehicle that could resolve many of our concerns.

I was not here earlier this morning, but I understand that Mr. Devine of OPM claims that he can bang out a supplemental system in about 2 weeks' time. I hate to differ with Mr. Devine's views, but I think we have a very complex issue, whether it is supplemental or whatever have you. It would take more than 2 weeks of Mr. Devine's time and knowledge to come up with a program that I think would resolve the problems that we all face here.

I would hope, in light of that, that we would also consider—and I think Congressman Pepper now recognizes the fact—that perhaps we are racing down a very fast track to implement some legislation that maybe was not studied, or many of the problems were not studied, with enough time.

He is suggesting, and we hope that his suggestion is taken, that this whole issue be deferred for another year so that a supplemental proposal for Federal retirement would have a chance to be studied, and the overview of this whole inclusion of the Federal employees into the social security program—what effect it actually would have rather than the cursory, we think, study that has been made up to this point.

Mr. PEIRCE. Mr. Chairman, if I might, I would like to say one thing.

I think, first off, that the Commission and Congress now has the chicken before the egg, and that's one of our problems.

We maintain that social security and a supplemental retirement system is going to cost more than what the current civil service retirement system is; but I don't know that either one of us can really tell that, because we haven't developed that supplemental system.

I think that before Congress moves to enact something that puts even the new Federal employee under social security, that we should first look at that and decide what this supplemental system is going to be and how much it is going to cost.

The civil servant today, and I think this would be true of any future employee, is worried like hell that this thing is going to fall flat—the current retirement system and any future one—just because of the avalanche and the siege that Federal employees are under today as far as paying benefits are concerned.

I think that, just out of respect if nothing else to the Federal employee and the job they do, they should be given the benefit of having a chance to look at something first, without it being rammed down their throats in reverse.

The CHAIRMAN. Your concerns are similar to those expressed by Congressman Pepper when he appeared before this committee. But he also stated at that time that if it meant jeopardizing the package he would not insist on that delay.

I don't quarrel with any of the statements made—I missed a couple of the statements, but I have looked at them. There won't be any closed rule in the Senate. One thing about the Senate, the bill is wide open when it goes to the floor, and who knows what will end up in the package? They may put all of the Federal employees under social security by the time the package passes.

Mr. **Sombrotto**. Bite your tongue, Senator, and thank God for the Senate.

The **Chairman**. Yes. Every day I go home and I think about it. Yes, sir.

[Laughter.]

The **Chairman**. I must confess, I've got the bankers covering me with mail. They don't want to withhold taxes on interest and dividend income. I don't know why—the Federal Government withholds your taxes, doesn't it? And I don't know why working people ought to be sending me postcards for the bankers, but they do.

The bankers are very powerful. They have a lot of money, big political action committees. We are hearing from people who don't want to take any reductions in medicare, talking about physicians and hospitals and others. And I guess the point is, we are not asking for sympathy, we are just suggesting this is a very difficult time. If there is a better answer, then we should find it. In fact, with Mr. Devine I pointed out, as some in the audience would recall, that if there are some real concerns that ought to be addressed, we ought to do it. Federal employees are by and large like everybody else—dedicated men and women who are working for our country. We in Congress are Federal employees and we will be covered, too. That will make a lot of people happy in Kansas.

At a minimum, do you think we ought to cover the President, the Vice President, Members of Congress, and the Social Security Administrator?

Mr. **Blaylock**. Mr. Chairamn, the idea of universal coverage is a political philosophy that was around in 1935. You go back and check the legislative parts, and then you read the constitutional issues.

The **Chairman**. Oh, it's been popping up.

Mr. **Blaylock**. But I think that's irrelevant to the issue we are dealing with. We are dealing with the financial stability of the social security system and the financial stability of a staff retirement program. And it has been structured in this emotional, political arena. And we are saying that's the problem with the approach, which seems to be the approach to a lot of problems this country has today, and we think this just falls another victim to that approach. I don't think that is relevant to the issue at all.

The **Chairman**. Well, that's not a requirement around here, you know.

[Laughter.]

The **Chairman**. You've been around here longer than that.

Mr. **Sombrotto**. Well, Senator?

The **Chairman**. Yes.

Mr. **Sombrotto**. We are certainly sensitive to that. We are appreciative of the job that the Congress does. Many people have made remarks about that institution similar to the ones that are made about us.

The **Chairman**. We get more than you do.

Mr. **Sombrotto**. We believe they are unfair. It's a negative position. But I think we feed that kind of thinking when someone says, "Well, as long as a Congressman or a Senator is going to be under it, that's good." They are not talking about saving anything; they are looking to stick it to somebody. And that's the wrong approach.

I think that the burden falls on us. We have said that the numbers that have been developed by the staff and that have been utilized by the Executive Director of the President's Commission on social security are incorrect. We challenged those figures. We put them before the House Ways and Means Committee. We have said that you won't get $12 billion by putting Federal and postal employees in in that window period. We say, at the outside the best you can get is $5.7 billion. That is a significant difference.

And I say this for the record: The Commission has now revised its figures downward to $9.3 billion; but privately the people on the staff of the House Ways and Means Committee say that our figures are correct. We have laid down the gauntlet. We will supply our actuaries and our economists to meet with anyone that is on the Commission staff to go over our figures. And if you can show us we are wrong, we are ready to admit we are wrong. But that is the kind of challenge, that is the kind of review, that is the kind of deliberation that this kind of subject needs.

And when we have thrown down the gauntlet, someone should not push it aside and say, "Well, we can't deal with that; that's irrelevant." Let's deal with this case.

I think we don't have to speed ahead in a mad dash. I think there is the kind of brainpower in this country that can deal with the problem outside of an emotional and political atmosphere.

The CHAIRMAN. The only problem with that is that we are also facing, as I have tried to indicate, a budget crisis in other areas. Until we can resolve the social security question it is going to be very difficult to move on the other, or then we are going to be charged with trying to balance the budget by using the social security program.

It is not that anybody is trying to rush it through. We have spent a long time in the Commission. We have had it around the Congress for a long time. I think it is obvious by what happened in the House subcommittee yesterday that it is moving pretty quickly in the House—I don't know whether they finished today or not. We intend to mark up the bill in the Senate sometime between the 8th and 10th of March. There is a fear of getting it wrapped up in the budget process, but that doesn't mean that we can't address the concerns.

I don't know about deferments of effective dates. The last time I agreed to a deferment was when I tried to accommodate the bankers who said they wanted 6 months to work out their withholding problems. All they have done in the 6 months is to send me about 20 million pieces of mail saying they want to kill it. So I have learned a little lesson in that last effort to accommodate a group.

Senator MOYNIHAN. Have you?

Mr. SOMBROTTO. We need the business. Today.

[Laughter.]

The CHAIRMAN. Well, you got a lot of business out of it. If you have any left over, just leave it here.

But if there was some deferment worked out, would that mean you would support raising the retirement age on the other end?

Mr. BLAYLOCK. I don't think so. But, again, if you are willing to negotiate, we would love to negotiate the whole compensation package with you. That's an alternative, you know. But if you want to negotiate job security against pay caps, or retirement stability against pay caps——

The CHAIRMAN. I can't get into all that. I was just seeing if there is any flexibility there.

Mr. BLAYLOCK. There is flexibility, but I don't think there is in that direction, Senator.

You know, Senator, you asked a question a while ago about would it satisfy everybody; it looked like it would if the House and Senate was all covered under it. From our experience we would prefer Congress not be under the same plan the Federal worker is under. You know, we went down that track several years ago on the pay system, and we decided, well, if Congress was all under the same pay period they are going to take care of themselves. Well, come election year, everybody that year was against voting for a pay increase, so we got stabbed on that one, so we didn't try to cut away from it.

So to answer your previous question, I don't think that's the problem. The problem is, really, we've got a problem with both sytems. We know that. We know that we've got budget problems. The whole country has economic problems, and we are victims.

The CHAIRMAN. And nobody wants to give anything.

Mr. BLAYLOCK. Sir?

The CHAIRMAN. No one wants to give.

Mr. BLAYLOCK. I don't think it's a matter of not wanting to give; it's a matter of fear of the unknown and wanting to know what's going to be there.

I don't know that if a system was structured right that even current workers couldn't agree to go under it, if we knew what it was.

The CHAIRMAN. I don't know. I think it is an area that we should explore.

Mr. Beers, on Foreign Service, you indicate that they are unique because they get into hazardous—and they are away from home. But what about members of the armed forces? They have been in the system since 1957. Why should Foreign Service people be—they are also in hazardous jobs.

Mr. BEERS. Well, our point is Senator, that We don't know what the alternative would be. For all of our new people coming into government under the Foreign Service the first of the year, what would be structured to take the place of what we have now? Again, as Mr. Blaylock has said, it's a fear of the unknown.

Mr. BLAYLOCK. Senator, I think a lot of people would take the military retirement system, if that's what you proposed.

Senator MOYNIHAN. Well, I think you had better watch out there.

The CHAIRMAN. Yes. We're going to overhaul that, too, I hope.

I guess I don't understand comparability, but you do favor that concept?

Mr. BLAYLOCK. Absolutely.

The CHAIRMAN. In pay, but what about pensions? Do you believe in comparability in that area, too?

Mr. BLAYLOCK. Provided you are not going to the sweat shops to get your comparability base.

The CHAIRMAN. No, I am just saying if it is uniform. I am not getting into any cracks anywhere.

Mr. BLAYLOCK. No.

Mr. PEIRCE. Senator, I think it depends upon the universe you are looking at. We keep hearing, and Mr. Devine in essence has said now, that Federal pay should be based on the average of all employees in this country. Well, that's like mixing apples and oranges. The Federal service is a structured service, how does——

Senator MOYNIHAN. Mr. Peirce, just let me agree with you. I was a member of President Kennedy's group that established the principle of comparability, and it was comparable pay for comparable work.

Mr. PEIRCE. Right.

Senator MOYNIHAN. There has never been any question.

Mr. PEIRCE. Yes, but already today they are trying to say that our retirement system is so much better because the average in the private sector is down here. Well, the point is that Federal employees are not average, because of the way the system is structured—it is highly professional, highly technical, and it doesn't include all career and occupational levels that you hit in the private sector side of it.

On top of that, the Federal Government is one of the largest employers in the country, and we should not be compared to employers with five, six, or seven employees.

In other words, if you are going to look at comparability, you have got to look at the situation that it will correlate with; otherwise it is apples and oranges.

The CHAIRMAN. One of the outstanding members of the Commission was Robert Ball, who I think most of you know. He has been very supportive of many of the efforts of Federal employees. He addressed a letter to me and indicated that I was free to use it in any way I saw fit. In that letter, which I would like included in the record, he indicates that Federal civilian employees newly hired after January 1, 1984, should be covered.

He points out he has spent most of his working career, 30 years, as a Federal employee. He was a Presidential appointee for 11 years.

He makes some very cogent arguments. If you haven't had an opportunity to read this letter—about coverage and windfall benefits that go to Federal employees and others—it might be interesting to take a look at it. I know of no one on the Commission who should have had or did have more respect than Bob Ball. We were coming at it from different directions, but I think it is fair to say that he made significant contributions. You may not agree with him, but I think he is trying to be objective.

I would be happy to make copies available to the members of the panel.

Mr. SOMBROTTO. We appreciate that. The process has taken an interesting form—it becomes a paper chase. Someone writes an opinion why; we examine it; and then we write an opinion why not. But we will be glad to look at what Mr. Ball said.

Senator MOYNIHAN. Let's keep in touch.

Mr. SOMBROTTO. And then we will get right back, and we will assure you that we will convince you that the arguments that he made are not as correct as you believe right now.

The CHAIRMAN. I don't say that I believe them.

Mr. SOMBROTTO. And I don't know that I could convince you, but I'm going to try darn hard.

The CHAIRMAN. Well, a lot of people convince me of a lot of things.

So we will make it a part of the record, and I will get copies immediately to the five members of the panel.

[The letter from Mr. Ball follows:]

ROBERT M. BALL

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WASHINGTON, D.C. 20002

February 17, 1983

The Honorable Robert Dole
Chairman
Committee on Finance
221 Dirksen Senate Office Building
Washington, D.C. 20510

Carolyn
Sam

Dear Mr. Chairman:

I fully support the coverage of Federal civilian employees newly hired after January 1, 1984, as recommended by the National Commission on Social Security Reform and the establishment for such newly hired employees of a benefit plan within the Civil Service Retirement system that would build on social security coverage, just as is the case with the pension plans of private employers. I would like to tell you why I take this position.

I spent most of my working career, 30 years, as a Federal employee, and although during the last 11 years of that period I was a Presidential apointee, I have always thought of myself as a career civil servant. I believe that the business of the United States is the most important and challenging business in the world, and we must be able to attract to it the best minds and skills of this and later generations. The need for a government of skilled administrators, researchers, policy analysts -- the need for creative minds -- transcends one's personal views about the proper direction for government. Whether one wishes to move the government in conservative or liberal directions, there is a need for high competence in carrying out the tremendous responsibilities of the United States government.

It follows, therefore, that I would do nothing knowingly to reduce the attractiveness of government service. On the contrary, I am appalled at the limits that have been placed on compensation so that Federal pay is becoming less and less competitive with private industry. We are only hurting our Nation when we make it more difficult to attract and hold the best people to work for us all as government employees.

A good retirement system and other fringe benefits have traditionally been a part of Federal government personnel policy. To some extent these benefits have made up for frequently lower wage and salary levels. I believe it is of great importance to continue the policy of fully adequate retirement and fringe benefits for Federal employees -- those presently employed and those hired in the future -- as part of the objective of making our Government work well. It is good that the Federal government has been a leader in personnel policy in this area.

I have given the reasons why I favor the coverage of newly hired Federal employees below:

1. In the long run, Federal employees will lose if they are perceived by the public to have been exempted for selfish reasons from our basic, compulsory social insurance system that covers practically everyone else in the country. Social security has the national purpose of providing protection to make up for income loss because of retirement in old age, total disability, or the death of a wage earner in the family. It is a compact between the generations in which all share the burdens and the benefits. It is anomalous, to say the least, that Federal civilian employees are the ones who do not take part in this national effort. For many years now, coverage has been extended to all employment for which it is practical, including military service. I have been on many radio and TV call-in shows in recent years and made many talks on social security to general audiences. I always get the question "How come Federal employees don't have to pay in when I do?"

2. The combination of social security coverage and newly designed benefit provisions within the civil service retirement system for new employees should be set up in such a way that, overall, the combination will provide as good protection as the present civil service system does alone. There is no intention to diminish the protection of these new employees as compared to the presently employed.

3. For many new employees, this arrangement of social security plus a completely independent supplementary plan, as in private industry, would be better than the present civil service plan alone. Social security with its weighted benefit formula is generally more favorable to low-paid employees than the civil service system, and frequently social security is better for those who move in and out of Federal employment, since the possibility of missing eligibility for social security is protected against. Very importantly, full survivorship and disability protection is

more quickly achieved under social security. The amounts paid for these risks are not related to length of service as in the civil service system, but are fully effective quickly, as in an insurance plan.

4. It is true that with extension of coverage to Federal civilian employment, Federal employees will lose an unfair advantage which they now have over those covered by social security throughout their working lives, but it is desirable that this should be the case. At present, about 73% of Federal annuitants who are age 62 or more are also eligible for social security, but they have been granted social security protection under more favorable benefit-to-contribution ratios than are possible for most people. The Federal annuitant picks up social security coverage without having paid into the system over his entire working lifetime, but instead gets the social security benefit based on a partial earnings record in employment outside the Federal government. His or her earnings record under social security therefore has a lot of zero years in it and the average wage on which the benefit is based tends to be low. This gives the Federal annuitant the advantage of the weighted social security benefit formula (the factors in the benefit formula are 90%, 32% and 15%) which was intended to benefit low-paid people. This is not the fault of the Federal employee -- there is nothing he can do about it under present law -- but the result is such that everyone else in the country is paying somewhat more for social security because Federal employees receive this advantage. Thus the extension of social security to Federal employees reduces the long-range overall cost of the system by about 0.3% of payroll. It is just not true that new Federal employees would be asked to "bail out" the social security to their own disadvantage. On the contrary, extension of coverage would correct an inequity now disadvantageous to those under social security.

5. The notion has been widely circulated that covering new Federal employees under social security would deprive present Federal annuitants and those presently employed by the Federal government of a future source of income needed to pay their retirement benefits. This is not the case. At the present time, the protection furnished by the civil service retirement system -- depending on how it is figured -- is worth about 38-40% of payroll. Employees are paying only 7% of their earnings toward this protection. The agency for which they work contributes another 7%, and the rest of the benefits will be paid for from general revenues. Thus under present law, the benefits of present workers will be paid for mostly from general revenues, not the contributions of the newly hired.

Moreover, the contributions that the newly hired employees would make toward a specially designed benefit plan within the civil service system would mingle with all other contributions to that system, as is the case today with other special benefit plans in the civil service retirement system, such as those for Members of Congress, congressional employees, air traffic controllers, etc. It is true that the contributions to the civil service retirement system to be made by new Federal employees would be lower than the contributions paid by those already at work because, of course, the supplementary plan on top of social security will be cheaper than the present plan, which is intended to be sufficient in itself. However, these lower contributions will be balanced by the fact that the benefit provisions for the newly hired will have lower long-term costs, and create less liability for the civil service retirement system. You cannot help the civil service retirement system's long-range financing by bringing in new people who pay 7% of earnings toward a liability of between 38% and 40% of earnings.

The civil service retirement system as a whole will not be injured by the proposal to cover the newly hired under social security plus a specially designed benefit plan for this group within the civil service retirement system.

There is apparently widespread misunderstanding among Federal employees about these facts, some even believing that the civil service retirement system is adequately financed by a combination of the 7% contributions that they pay and matching contributions from their agency. It is important that these misunderstandings be corrected.

It is not surprising to me that Federal employees are greatly concerned about any proposals affecting their pay, working conditions, retirement and other fringe benefits. Their total compensation is being threatened in a variety of ways, but, in my considered judgment, the proposal to extend social secuirty to newly hired employees is of an entirely different character. The adoption of this proposal will help, not hurt, the presently retired, the presently employed, and the newly hired, and will strengthen, not weaken, the attractiveness of Federal employment, while improving the attitude of the rest of the country toward the Federal employee.

Sincerely,

Robert M. Ball

Robert M. Ball

The CHAIRMAN. Senator Moynihan, do you have additional questions?

Senator MOYNIHAN. No, Mr. Chairman, but to say that I don't think this is the last conversation we will have with these friends of ours, and we have to stay very close in touch as we go through this.

But thank you for appearing as witnesses at this time.

The CHAIRMAN. Does anybody else have questions? I don't want to shut anyone off.

Mr. SOMBROTTO. I just want to say I want to commend the committee on the number of people that were here. It shows an interest. In the other body we didn't have that much attention, and we appreciate you.

We hope that what we have said has influenced you, has educated you, has persuaded you, and that we will see a different proposal coming out of the Senate than might come out of the House.

The CHAIRMAN. On the Commission itself there were a lot of ideas about coverage. At one time there was very nearly an agreement on covering Federal employees with less than 5 years of service. Then we backed off to 3 years. Then we decided, rather than to take on all the Federal employees, we better just make it new hires. But it turned out we didn't figure that right.

Mr. SOMBROTTO. But you were going in the right direction, Senator.

The CHAIRMAN. Oh, we were going in the right direction. [Laughter.]

We kept backing off, and that's the right direction.

But the point I want to make is that we tried. We were hearing from Federal employees and from Lane Kirkland all during that time. That is the one area in the Commission package where he dissented, and the record should indicate that.

But we also knew that we were all in the same boat. We either were going to come up with a package that no one liked—that doesn't mean it's good, but it means that everybody gave something—or we were going to have a political football around here for the next 6 months. There was a judgment by Democrats and Republicans on the Commission and outside the Commission—by the President and by Tip O'Neill—that "OK, this is not what I like; but this is a compromise, and let's give it a try."

Now, that doesn't mean that we can't make changes in the Congress, but I don't think we can make substantial changes.

Mr. BLAYLOCK. Senator, for the record, you asked a question about comparability a while ago. It's been the position of our union for a long time that the only reasonable, politically acceptable method of compensation for public workers is around the principle of comparability with the private sector—like pay for like work, like working conditions, and so on. We don't think that they should be better—we don't think that we can defend that—but we don't think it should be less, because I don't think you can defend less if you are going to attract good, competent workers and keep this Government working. So, just for the record, I would like to state that.

As far as the Commission and the package, I will be very candid about one of the reasons workers are suspect at this point.

If you recall when the idea first started about universal coverage, Federal employee coverage, there were people who were advocates about the universal coverage and concerned about social security financial problems. This goes back to about 1977, as I recall. I worked with the Aspen Institute and the Wharton School of Economics and several others, and two or three of the strong advocates that are now playing the roles, they very openly publicized at that time the trust fun for the Federal retirement program had in it about $63 billion. And their idea was to transfer that trust fund into the social security trust fund and thereby bail it out.

That was the start of this idea, and ever since that day we have been very suspect that one way or another that's what is behind this move. So that's what started it.

At this point in time, until we see the package, then it's going to be there. And I think we are all more than willing to work with the Senate, to work with you people, to develop that package.

We are just as concerned about social security. For every one of us, with the exception of probably ourself, the rest of our family is covered by social security, you know. It touches every American's life, we know that, and we are not saying that we want it to go down the tube; but we are saying let's don't trade one off for the other; let's get the emotion and the politics out of it.

We can't understand why the Senate of the United States and the House of Congress would take a package that was developed by a so-called bipartisan group and then hold that package sacred so as it can't be touched. We think your responsibility is to touch it if it is not going to do the job.

The CHAIRMAN. I don't disagree with that.

Mr. PEIRCE. Senator, if I might, as a last word, I, too, appreciate the discussion and the dialog. I think it's been great, and it's been more than we have been afforded before.

I would say, however, that I think you are trying to sell us a pig in a poke, and I'm sure you can relate to that. I trust you, and I trust this Senate. It's those in the future that I don't trust, as far as any guarantees. And I think that's been the history—things change, times change, and so forth. But the Federal employee for too long has been maligned and blamed for things which they should not have been blamed for.

I think if you do what is started now on this Commission report, and we wind up with social security, in my address later in my testimony I said, "After the retirement system, what else is left?" There is not going to be anything left. We are going to have a hard time getting quality applicants for the Federal service. Sometimes I wonder, however, if that's not where we are headed. Maybe we don't want the Federal service with quality people working in it, and we don't want it to work; thus, it will fall apart, and big business can take it over. But that's what is going to happen to us.

We are in trouble now. There has been a brain drain. We are having troubles already, even with the recession, getting quality applicants into the Federal service.

The CHAIRMAN. Again, we appreciate it very much, and we understand, or we hope we understand, some of the concerns you have expressed.

We will have a discussion with all the members in a markup session, and we'll do the best we can.

Again I want to emphasize that it's a tough time to be dealing with some of these problems, with all the other economic problems right behind this one. We have to go back into medicare and do some trimming there; we have to go back into a lot of areas. We may have to raise revenues. So I don't want to hold out that it's going to be easy street, because it's not.

We appreciate very much your taking the time to appear, and we hope that we have been responsive.

Mr. PEIRCE. Thank you, Senator.

Mr. SOMBROTTO. Thank you.

Senator MOYNIHAN. Thank you very much.

The CHAIRMAN. Dr. Schieber? I think we missed you. Good to see you.

Dr. SCHIEBER. Thank you, Mr. Chairman.

The CHAIRMAN. Let me say that your entire statement will be made a part of the record, and we hope that you can summarize the highlights.

Dr. SCHIEBER. All right. I'll try to do that.

STATEMENT OF DR. SYLVESTER J. SCHIEBER, RESEARCH DIRECTOR, EMPLOYEE BENEFIT RESEARCH INSTITUTE, WASHINGTON, D.C.

Dr. SCHIEBER. I want to thank you for allowing me to appear before you today to discuss the current deliberations on the social security financing package. My prepared testimony focuses on two issues, and I will dwell primarily on those.

The first is social security's long-run financing situation; the second is the issue that you have been discussing at length this afternoon—the expansion of social security coverage to include Federal workers. But the comments on the first will be very brief, although they are somewhat lengthy in the prepared testimony.

The package of social security modifications that is now before the Congress moves significantly toward restoring the short-term financial balance of the social security cash benefits programs. Yet the public opinion polls taken since the package of recommendations was completed show persistent skepticism that benefits will be paid in the long run. It is unlikely that the public understands the various nuances and details of social security financing, but it is clear that they are skeptical that they will receive their benefits.

There did appear to be agreement among the National Commissioners, as you are aware, that resolving the long-term deficit is necessary to reestablish program credibility; the disagreement seems to come on specific proposals to address the issue.

At this time there is a seeming stalemate between those who would resolve the long-term financing problem by increasing payroll taxes, scheduled sometime out in the future, versus those who would raise the retirement age, even indexing it for increased longevity in the future. If this stalement persists, then there may be little progress toward resolution of the problem before you at this time.

As I said earlier, I devoted a large section of my testimony to this issue. I looked at an alternative to the two approaches that I just mentioned, specifically, adjusting the social security benefit formula over a very long period of time. The rest of my discussion will focus on the social security coverage issue.

Here I want to talk about the issue and the implications of covering newly hired Federal workers under social security in the future. This has become the most acrimonious element of the National Commission's package, and it has certainly become the most confusing. I myself have done a considerable amount of research in this area, both inside and outside of Government jobs, and will attempt to speak to some of the issues.

There are three principal reasons generally cited for extending social security coverage to workers now exempted from participation.

The first is that the current split-systems offer inadequate protection for workers who move between covered and noncovered jobs. You alluded to that earlier, Senator.

Second, social security is redistributive, and many of those who were exempted are higher income individuals. Federal workers do, in fact, have higher incomes on average than the work force at large. That does not mean that they are overpaid; in fact there is some evidence that they might be underpaid; but the program is a redistributive program. Higher income people in the private sector and throughout much of the public sector do contribute to this program, and if they have higher income than average, they support lower income individuals' benefits.

There is also a second edge to this sword. Many Federal workers, many State and local workers, who are not covered have lower incomes as well. In the Federal Government this is especially true of women and minority workers. They would benefit from social security coverage.

The third issue arguing for coverage is the windfall benefits problem, or something that the House of Representatives in 1939 called unwarranted bonuses. And I refer specifically to their statement on page 19 and 20 of my prepared testimony.

The universal social security coverage study, which was mandated by the Congress as part of the 1977 social security amendments, quantified the costs of these unwarranted bonuses as $2 billion a year. The reason that they are so expensive is because you have a lot of mobility among people who come in and leave very quickly after they enter Federal service. You lose their contributions in the short run; ultimately you have no effect on the benefits that they receive.

The second part of the problem is the dual-beneficiary problem. According to a study released by the Social Security Administration in December of 1982, as of 1979 73 percent of civil service annuitants over the age of 62 were receiving a social security benefit. Another 3 percent were eligible to receive a benefit at that point in time. So more than three out of four Civil Service annuitants eligible for social security benefits by age were receiving those benefits, or were eligible to receive them.

In addition to the arguments for social security coverage, there are arguments frequently cited in opposition to covering those now exempt from social security, Federal workers in particular.

The first argument is that civil service retirement covers Federal workers, and social security is unnecessary. For someone who reaches retirement and gets the benefit, this is absolutely true—for someone with a long career receiving a full benefit, it would be hard to make a case that they need the additional supplementation of social security.

For those who do not quite grab the brass ring of retirement as they ride the merry-go-round of a career, however, the situation is not quite the same.

As an example, I cite in my testimony an article by Judy Mann in the Washington Post of February 11, where she was talking about two survivors of long-term Federal employees who divorced their husbands shortly before their husbands died. In one case the woman had been married for 36 years. She has a disabled son. She and her son are now depending on SSI and food stamps for a rather meager existence—she gets absolutely nothing from her husband's years of service. If he had been covered under social security she would be protected.

In addition to this, there is an issue that is sometime made that the civil service retirement system preceded social security, and because of this precedence social security coverage should not be extended to Federal workers.

I might point you back to the early deliberations of the social security Act in 1935. The most heatedly discussed issue during those deliberations was something called the Clark Amendment. The Clark Amendment would have exempted all private sector employers and their employees who had and were covered by a pension plan from participating in social security.

The Clark Amendment in fact passed in the Senate, and it was through a very painful deliberation process, a conference process with the House where the conferees had to be sent back. I believe it was three times before this was ultimately resolved. So the issue of whether or not a prior pension plan should take precedence has been fairly rigorously debated in the past, at least vis-a-vis private employers.

The second issue arguing against coverage of Federal workers is that there is no modified pension to coordinate with the Federal retirement system with social security coverage. We heard a considerable amount of discussion of that toward the end of the prior panel.

I might state that the universal coverage study that was empowered or set up by the 1977 amendments did a fairly detailed analysis of options for covering Federal employees. They came up with four basic models. These models were worked out between the staffs at the Department of Health and Human Services—then the Department of HEW—including the social security Administration people. We also worked very closely, actually directly, with the actuary and the benefits people at the Office of Personnel Management.

There were actually eight different benefit levels that were structured under those four models.

Since the work of the universal coverage study, last year Senator Ted Stevens, chairman of the Senate Governmental Affairs Committee, offered an alternative approach, a defined-contribution plan; whereas, the universal coverage study group had all defined-benefit plans.

For all practical purposes there is no mechanical reason that a plan, a supplemental plan, could not be put in place by January 1, 1984, if there was a desire to do so.

The third issue is that social security coverage of Federal workers would bankrupt the civil service retirement system. Here we point to the problem of unfunded liabilities. In the prior panel it was argued at one point that it was underfunding of the civil service retirement system during the period 1920 to 1956 that caused us this problem.

I have done a fairly detailed analysis of the less-than-full matching of employee contributions during that period. What I have found is that if you take the less-than-full contributions that the Federal Government made as an employer over the years of the civil service retirement system, accrue those with interest, that by 1969 that additional revenue that would have been in the trust fund would be $3.5 billion.

If you look at the period since 1969, and look at the additional appropriations that the Federal Government has made to this system over and above the matching contributions, and if you compared it to what the trust fund would have had if matching contributions had persisted throughout the 62-year period of the system, then what you would find is that the trust fund would have had $79 billion less in it at the end of 1981 than it actually had.

In fact, if the system had always been financed on a matching-contribution basis plus interest, the trust fund would have gone broke during 1982, and there would have had to have been an immediate cut in benefits of 55 percent to perpetuate the system on a pay-as-you-go basis.

Finally, the argument is that the coordinating of social security coverage with the Federal pension system would have to raise the cost of Federal retirement to taxpayers. On page 30 of my testimony I have a table which is the summary of a fairly detailed analysis that I was asked to do by one of the National Commission members, showing projected net budgetary costs and savings of the current system versus the modified system.

What you find there is, in the early years, using the Stevens bill as a model, the savings are relatively slight. In the outyears the coordination would save the taxpayers of the future something like 16 percent of their contributions.

Finally, opponents argue that social security coverage of Federal workers would ultimately raise the cost of social security.

Over the years in my analysis of this issue, and all my associations with the actuary in the Social Security Administration, I am not aware of a single analysis by the people involved in this on an ongoing basis that shows that covering Federal workers would be a money-loser for social security in the long term.

Thank you.

[Dr. Schieber's prepared statement follows:]

Mr. Chairman, I am pleased to appear before you today to discuss the current deliberations on Social Security financing. I appear today in my capacity as Research Director of the Employee Benefit Research Institute. EBRI is a nonprofit organization dedicated to providing research and analysis which can serve as the basis for sound policy toward employee benefits. EBRI as an institution does not take positions on public policy issues. Prior to joining EBRI, I served as the Deputy Director of the Office of Policy Analysis in the Social Security Administration. Prior to that I was Deputy Research Director of the Universal Social Security Coverage Study, a study mandated by Congress in 1977.

I have recently written, and EBRI has published, a book entitled Social Security: Perspectives on Preserving the System that focuses on the evolution of Social Security in this country, its current financing problems, and the prospects for the future. The analysis looks at Social Security in the framework of the larger retirement income security system in this country. While my analysis touches on many aspects of the issues surrounding Social Security today, I will focus primarily on two issues: first, Social Security's long-run financing situation, and second, the expansion of coverage to include new federal workers in the future.

LONG-RUN CONSIDERATIONS

The package of Social Security policy modifications that are now before the Congress move significantly toward restoring the short-term financial balance of the Social Security cash benefits programs. Yet the public opinion *polls that have been taken since the package of recommendations has been completed by the National Commission on Social Security Reform show persistent widespread skepticism about the long-term viability of the program. The numbers of the National Commission, while agreeing that provisions saving 1.80 percent of taxable payroll were needed in the long run, only recommended modifications that would net 1.22 percent. It is clear that the Congress is having difficulty resolving the remaining long-term deficit.*

Meanwhile, news is emanating from the Social Security actuaries that this projected 1.80 percent long-term deficit should be adjusted upward to 2.09 percent under current law. The Congress should be aware that the long-term projection process will, in all likelihood, raise the average cost of the system even further in the future. The reason is that the annual cost estimates are generated over a 75 year time horizon. As each year passes, that year is deleted from the projection period and the next 75th year is added. As an analogy, one could think of a locomotive pulling 75 freight cars. At each station the train stops, the front car is taken off the train and another car is added on to the end. If the car that is taken off is lighter than the one added, the burden on the locomotive increases.

This is exactly the phenomenon that is now occurring in the OASDI valuations. For example, on the basis of the Alternative II-B assumptions used to develop the 1982 Annual Trustees Report, the cost of the OASDI program was estimated to be 11.78 percent of taxable payroll for 1982. Under the same assumptions the projected cost for the years 2055 and 2060 were 16.81 percent of covered payroll. The seventy-five year period on which the 1982 long-term estimate was based included the years 1982 through 2056. This year's estimate will include the years 1983 through 2057. The process of considering different years will lead to a higher cost estimate. Furthermore, the actuaries have recently adjusted their fertility and withdrawal assumptions,. further exacerbating the longterm financing deficit projections.

In addition to the long-term problems in Social Security's cash benefits programs there is a more imminent financing problem for the Medicare program which the National Commission did not address at all. Under current law the Medicare financing deficits take on much greater proportions than those faced by the Social Security cash benefits programs.

While it is not clear how much of this situation the public understands in detail, it is clear that their confidence in Social Security has been badly shaken. While it is possible to separate short- and long-term considerations or even health and cash benefit program adjustments, it may be exceedingly dangerous to ignore the crisis of confidence that rejoins all the problems I have mentioned.

Historically, Social Security policy has attempted to balance the countervailing goals of adequacy and equity through its financing and benefit structure. Until recently, this process has been relatively uncontroversial because virtually all beneficiaries have received, or could expect to receive, benefits that substantially exceeded the value of their contributions. The years are quickly passing when all members of each retiring group of workers can expect to receive more than the value of their combined employer-employee payroll tax contributions. The future balance of adequacy and equity has to be considered in the framework of a broader set of priorities.

Two equally important policy goals for Social Security are solvency and public support. If these goals are not met, adequacy and equity considerations will become moot. Questions about Social Security's solvency have shaken the *confidence of old and young alike. Many elderly beneficiaries fear that their monthly benefits will be cut off, and many young workers do not believe the program will even exist when they reach retirement age. Resolving the short-term financing problems, while not specifically addressing the long-term, may resolve the concerns of beneficiaries, but not those of young and middle-aged workers. Without confidence that the program is solvent, continued support may wither.*

The most prevalent perception of young participants in Social Security today is that they will never get benefits from the program. Virtually all of the long-term savings in the Commission's recommendations are by-products of their short-term proposals. The implications of the long-term funding deficit cannot be expected to instill public confidence that the National Commission on Social Security Reform has come to grips with a fundamental problem in the program. If Congress fails to address this problem, support for Social Security can only erode further as the short-term adjustments are implemented and the coming Hospital Insurance financing crisis approaches.

Intergenerational concerns about Social Security link the short- and long-term considerations. Policymakers cannot seek solvency with total disregard for either adequacy or equity. There is general agreement across the entire political spectrum that retirees must not be ravaged by program modifications. At the same time, there is broad agreement that today's workers should be assured that Social Security will persist. There even appears to be agreement that resolving the long-term deficit is necessary to reestablish program credibility. The disagreement comes on specific proposals to address the problem.

Before making any decisions about changes to Social Security that might help to resolve the long-term deficit it is important to consider the underlying implications of alternative policies. There are two basic approaches for eliminating the long-term deficit: raising additional revenues or slowing the growth in outlays.

Raising additional revenues through the payroll tax or alternative sources would help resolve the projected problem. To raise revenue sources now to the extent required to balance the system over the long term could cause massive trust fund accumulations during the 1990s. Unless provisions are made to handle those trust funds, raising taxes might create even more problems. To merely schedule future tax increases sufficient to meet the long-term problems would be to levy on today's children and those not yet born a burden that current or prior generations have been unwilling to bear. Will future taxpayers be willing to accept that burden? Maybe they will; possibly they won't.

Some analysts will point to several public opinion polls that have been taken in recent years indicating a greater public willingness to accept higher Social Security taxes rather than benefit reductions. It is not clear what these polls are telling us, however. In a recent Washington Post - ABC News poll 58 percent preferred raising taxes to 21 percent selecting benefit cuts as the way to resolve the Social Security financing problem. But in evaluations of specific recommendations by the National Commission the story was much different. On moving the 1985 scheduled payroll tax increase to 1984, 39 percent favored the recommendation; 55 percent opposed it. On increasing the self-employed payroll tax rate, 40 percent favored while 51 percent opposed the increase. When asked about delaying the July 1983 cost of living allowance

(COLA) adjustment to Janaury 1984, on the other hand, 52 percent favored this policy while 43 percent opposed it. On the Commission's proposal to tax Social Security benefits 46 percent favored while 49 percent opposed it. With the exception of the latter item, where the responses were within the 3 percent sampling error range of being evenly split, each of the particular responses was inconsistent with the overall assessment that taxes should be raised rather than benefits reduced. 1/

It is not clear what people perceive when they are confronted with questions relating to global policy options for "raising taxes" or "cutting benefits." It is clear that each of the long-term options that has been considered has taken on political opposition from various quarters. Those who advocate scheduled payroll tax increases or general revenue infusions to resolve the long-term problem appear to have insufficient support at this time to get passage of such measures. Those who advocate raising the retirement age, even indexing it for increases in life expectancy, also face apparently insurmountable opposition. Given the seeming stalement encountered on the tax and retirement age fronts, other options may warrant considerations in light of recent polls showing that the majority of young workers still do not believe Social Security will survive until they retire.

One option considered by the National Commission that warrants further scrutiny and discussion would gradually adjust the benefit formula. This option would provide a slow and limited reduction in the percentage of preretirement income that Social Security replaces.

1/ Barry Sussman, "Social Security Plan Splits Public Opinion." The Washington Post (January 27, 1983) p. A4.

Social Security benefits are based on lifetime covered earnings. There are three benefit calculations factors (often called "bend points") in the benefit formula. Each year these factors increase by the rate of average wage growth in the economy. The practical effect of this procedure is to raise the purchasing power of Social Security benefits as wages grow over time. The adjustment to the benefit calculation procedure considered by the National Commission would index the benefit formula "bend points" by 75 percent of wage growth, instead of the full wage indexation that is now used. This would be continued until Social Security's replacement of preretirement earnings was reduced by roughly 10 percent. Under the assumptions used to evaluate the proposal this would take about 16 years. Yet over the period of implementation the purchasing power of average benefits would continue to grow steadily.

In our work at EBRI we have compared the implications of various long-run options using a computer model that simulates people's work careers and retirement lives. 2/ One of the options that we analyzed was this benefit formula modification evaluated by the National Commission. The results of our simulation analysis of the option are shown in figures 1 and 2. Figure 1 shows the growth in average family Social Security benefits under the current policy simulation in 1982 dollars as the solid upper line. The broken lower line in the figure shows future average family Social Security benefit levels under this option that would slow the growth of initial benefits levels through a modification of the benefit formula. The clear implication of figure 1 is that while future benefits would decline relative to benefits provided by current

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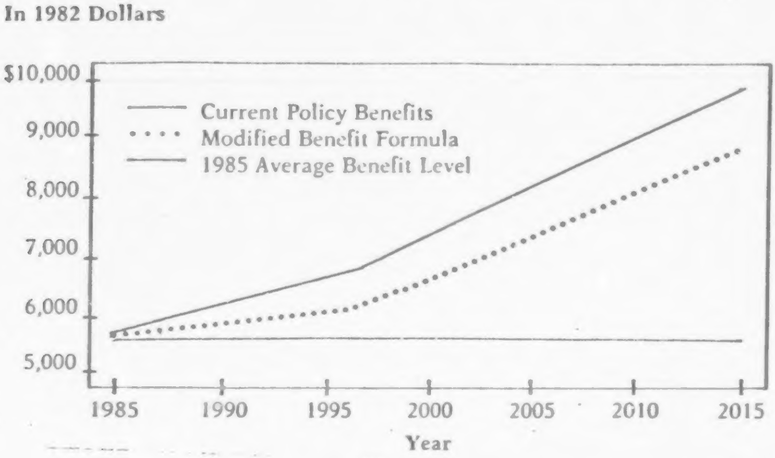
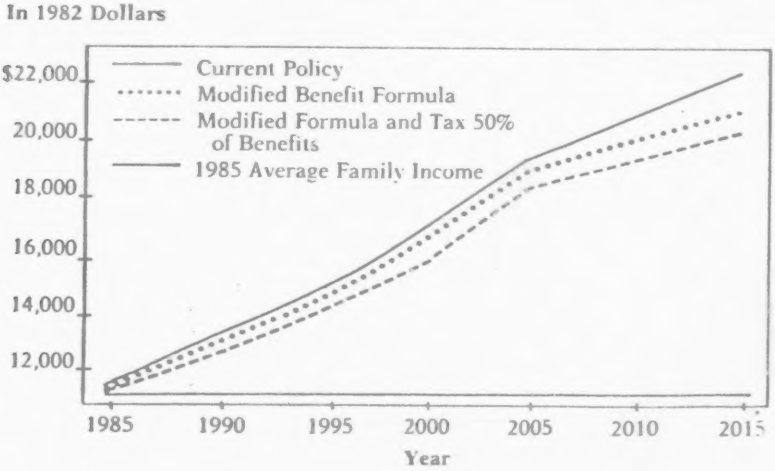
2/ For a complete description of this analysis see Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: Employee Benefit Research Institute, 1982).

FIGURE 1
Future Average Family Social Security Benefits at Age 65



Source: Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: EBRI, 1982) p. xxxi.

FIGURE 2
Future Average Disposable Family Income at Age 65



SOURCE: Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: EBRI, 1982) p. xxxii.

the purchasing power of benefits would continue to increase throughout the implementation period.

It is also important to remember that there are other sources of income that will help to mitigate the effects of modifications in Social Security. By the time any of the long-term options being seriously discussed is fully implemented, the portion of the elderly's population receiving pension and IRA annuities will be significantly higher than is currently the case. Figure 2 shows the estimated average disposal income for future cohorts of retirees from our simulations under three different Social Security policy scenarios in 1982 dollars. The top line in the figure represents estimated average disposable family income under current Social Security policy. The middle line shows the projected path of average income under the Social Security benefit formula modification that would slow bend-point growth to 75 percent of wages for a defined period. The bottom line shows the projected path if the formula were modified and half of Social Security benefits began to be treated as regular income. The difference between the current policy and the combined alternatives may be considered as an 8 percent reduction in income at age sixty-five by the year 2015. Another way of expressing the difference is to say that under current policy, average real disposable income is projected to rise by 1.9 times between 1985 and 2015, whereas it might go up only 1.8 times under the modified policy.

The National Commission estimated that if this benefit formula modification were implemented in 1984 the long-term savings for the OASDI program would be 1.08 percent of payroll. Yet it would only take $3 billion out of the benefit pipeline between now and the end of the decade, or less than two-tenths of one percent of total projected benefit payments over the period. But the proposal would not have to be implemented immediately. For example, if it were implemented in 1987 the projected savings would be 1.01 percent of payroll, still meeting the projected deficit. If it were implemented in 2000 the projected savings would be .80 percent of payroll.

This option may not be the first that many policymakers would naturally consider, but given the problems with the others it may be a middle ground where different perspectives can be blended. Some will perceive this as a benefit cut, but provisions could be made to assure that benefits do not decline in real terms during the implementation period. From another perspective this option can be perceived as a benefit cut only if the benefits under current policy to potential retirees decades hence are considered to be firmly committed -- on the way to the bank, so to speak. It may be tenuous to assume that the exact level of Social Security benefits to be paid ten, twenty, or thirty years in the future is broadly perceived as firmly committed now. More important is Social Security's commitment that future benefits will provide a reasonable base of support for the elderly's retirement income security. If a consensus cannot be attained on raising retirement ages or future tax rates, adjusting the benefit formula may be an option for achieving the long-term savings deemed necessary by the National Commission. As one of the possible options it should be publicly debated.

COMPARING VARIOUS LONG-TERM OPTIONS

Establishing various aspects of a national program the magnitude of Social Security is somewhat arbitrary. The establishment of age sixty-five in 1935 as Social Security's retirement age was basically a normative decision. The same can be said about the other facets of the program as well, from the *benefit structure to the financing provisions. The prospect facing Congress now is a new set of normative options, all of which somewhat change the course from the accumulation of past decisions. It is possible that if Congress were presented with a clean slate, it might design a program significantly different from the one now known as Social Security. But Congress does not have a clean slate; there is a defined structure with an inherent set of obligations. Congress faces the choice between making a set of incremental adjustments or more radically restructuring the existing system.*

In our simulation analysis at EBRI we compared the potential effects of five long-term Social Security adjustments by calculating the present value of Social Security benefits based on the simulated life beyond age sixty-two, under each of the options. We calculated the stream of annual benefits paid each year that a person lived beyond age sixty-two; this calculation included not only worker benefits but spouse and survivor benefits as well. Each benefit was attributed to the person to whom it would be paid; that is, a spouse benefit was attributed to the spouse, not to the primary beneficiary on whose benefit the spouse was based. Annual benefits were calculated in 1982 dollars and discounted by a 2 percent real rate of return back to age sixty-two to give the value of lifetime benefits that would be paid to all persons who reached early retirement age under current policy for each of the policy options that was simulated. The value of benefits under each of the alternative policy options was then compared with the value under the current policy option, and the percentage change in benefits was calculated. Table 1 shows the results of these calculations for all individuals in the cohort of workers aged twenty-five to thirty-four in 1979. To limit the complexity of *the analysis, only one cohort is shown. This cohort was chosen because these people would feel the maximum effect of each of the options simulated.*

From a lifetime-benefits perspective, the distributional effects of the various options are quite different. The options that adjust the benefit formula (i.e., bend point adjustments) tend to cluster the benefit reductions, relative to current policy, below 15 percent. Under the price indexing of earnings options, benefit reductions for the majority would also be less than 15 percent. Under each of these options there is a clear modal group with narrowly distributed benefit reductions being spread across a wide range of the population. Under these options, almost everybody ends up in roughly the same boat, so to speak. The variations in the distributions that exist from the alternative formula adjustments stem from variations in work and earnings patterns in the simulations.

Under the scenario for raising both the normal retirement and early retirement ages, about 34 percent of the people had benefit reductions of less than 5 percent. In fact some people with long lives beyond age sixty-eight, who worked to normal retirement age under both simulations, would receive higher lifetime benefits under the higher-retirement-ages scenario. This occurs because their benefits would be calculated on the basis of a benefit formula whose bend points had been indexed three additional years. About 23 percent of the people at the upper end of the distribution would experience benefit reductions of 25 percent or more under this option, while 10 percent would lose benefits altogether. The wider distribution of benefit reductions from raising the retirement age, compared with the distribution under the options for modifying the benefit computation, stems from later retirement age eligibility in combination with age at death. Even though average life expectancy increases over the simulation period, some people still die between the ages of sixty-two and sixty-five, and sixty-five and sixty-eight. People who do not live to age sixty-five or who live only a few years into retirement would receive benefits for a shorter period under this option. Obviously, their lifetime benefits would be reduced significantly.

The option that raises normal retirement age but maintains the current early retirement age would lead to somewhat larger benefit reductions on average than any of the other options. This occurs because people are expected to choose to retire at an age close to the retirement age under current policy, at the expense of the larger actuarial reductions in their benefits. If older workers were to extend their careers in the future, however, this phenomenon might be less extensive than the simulation suggests. The size of the baby-boom cohort and the prospects of the mass exodus of these people from the work force might result in significant wage growth among the members of this cohort as they begin to retire. To some extent, this phenomenon is captured in the simulation, but possibly not sufficiently. If the wages of this cohort were to rise appreciably as the group approached retirement, the labor-force participation of the elderly could be expected to rise and the Social Security benefit reductions would be less pronounced than the simulation results shown in table 1 suggest.

If Social Security is to remain the cornerstone of our retirement system, it must adjust in the future to meet the changing needs of society. The uncertainty of the extent of changes in the economy, productivity, birthrates, life expectancy, and a host of other factors suggests that Congress should adopt a Social Security policy that allows some margin for error. In

TABLE 1

DISTRIBUTION OF RELATIVE CHANGE IN PRESENT VALUE OF LIFETIME SOCIAL SECURITY BENEFITS AT AGE 52 UNDER ALTERNATIVE POLICY SCENARIOS IN COMPARISON WITH BENEFITS UNDER CURRENT POLICY FOR PERSONS AGED 25 to 34 in 1979

	Relative Reduction in the Value of Lifetime Benefits Compared with Benefits Under Current Policy							
	Less than 5 Percent	5 to 9.99 Percent	10 to 14.99 Percent	15 to 19.99 Percent	20 to 24.99 Percent	25 to 99.99 Percent	100 Percent	
Policy Option	(Percentage of persons in each category)							Total a/
Bend-point indexation by 75 percent of earnings for 16 years	2.1	26.7	69.8	0.8	0.3	0.3	0.0	100.0
Price indexation of bend points	1.7	14.0	62.3	22.0	0.0	0.0	0.0	100.0
Price indexation of wages indefinitely	3.5	64.8	25.7	4.8	0.6	0.5	0.0	100.0
Raising early and normal retirement ages three years	33.9	27.8	7.8	5.6	2.5	12.7	9.9	100.0
Raising normal retirement age three years and adjusting actuarial factors	7.0	7.0	12.3	48.6	19.2	4.4	1.5	100.0

SOURCE: For a complete description of this analysis see Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: Employee Benefit Research Institute, 1982),p. 196.

a/ Totals may not add to 100 percent in all instances because of rounding.

essence, this means that any policy changes Congress makes in the current environment should not promise more cash benefits for the future than we are sure we can provide. This is especially the case given the pending financing problems of the HI program. This raises the possibility that adjustments made today may have more drastic effects or provide greater program savings than future generations would accept. For example, if it is socially desirable to raise the level of real Social Security benefits in the future it can be accomplished through the legislative process at that time. The public would then have a much clearer understanding of the needs of the elderly population and the relative burden that Social Security financing will place on workers. One has to assume that future Congresses will be equipped to assess appropriate benefit and taxing provisions in their respective times. Policymakers then will be better able to judge the relative needs and capabilities of their society and economy than anyone can judge today.

SOCIAL SECURITY COVERAGE FOR FEDERAL WORKERS

The proposal by the National Commission that new federal workers hired after January 1, 1984 has created more acrimonoy and confusion than any other facet of the package. It is the only recommendation in the package being attacked in a coordinated media campaign. Federal workers do have some justification for concern, especially in light of other policy modifications being considered for their retirement program. Before reaching any conclusions as to the desirability of covering federal workers both the reasons for coverage and the arguments against need to be considered.

There are three principal reasons generally cited for extending Social Security coverage to workers now exempted from participation. These are: (1)

inadequate income protection for persons not covered by Social Security; (2) inequities inherent in partial exemption from participation in a mandatory redistributive program; and (3) subsidized benefits afforded partial participation in Social Security.

Opponents of expanded Social Security coverage for federal workers, on the other hand, argue: (1) The Civil Service Retirement System (CSRS) covers federal workers and Social Security is unnecessary; (2) there is no modified federal pension to coordinate with Social Security; (3) it would bankrupt the CSRS; and (4) it would raise the cost of federal retirement for U.S. taxpayers.

Arguments for Coverage

Inadequate Protection for Persons Not Covered -- Most workers not covered by Social Security are covered by pension plans sponsored by their employers. Both Social Security and the typical pension plan require a period of employment under the retirement program before the worker is eligible for insurance protection. As a result, workers who have jobs not covered by Social Security or who shift between covered and noncovered employment may experience periods without disability and survivor coverage.

Public pension plans usually require at least five years of service before the worker receives disability protection. Many employees in the initial five years of service are young people holding their first major jobs who have no other pension protection. Although disability is unlikely for most young workers, it does occur and the worker is often without insurance or assets.

Workers who leave federal employment without CSRS annuity status, for example, are the least likely to have Social Security coverage and are the most likely to need it. Of workers who left federal employment between 1973 and

1977, an average of 39 percent of the men and 63 percent of the women were not insured against disability.

Workers in employment not covered by Social Security also experience gaps in benefits. These gaps arise because many of the alternative pension systems do not provide disability and survivor benefits comparable to those provided by Social Security. A twenty-one-year-old worker can acquire Social Security disability protection with credited earnings for six quarters of work in covered employment; in fact, these credits can be earned with as little as one month of covered employment in two consecutive years. To become insured under CSRS, the same person would have to work five years for the federal government.

Inequities Inherent in Exemptions from Participation in a Mandatory Redistributive Program -- Career noncovered workers are exempted from paying into an income-redistributive program that provides proportionately more generous benefits to low-wage than to high-wage workers. Part of the payroll tax contributions of high-wage covered workers is used to provide more generous benefits to retirees with low average lifetime earnings than they would otherwise receive if Social Security were not tilted to favor low-income workers. The highly paid noncovered worker does not share this burden. There is nothing inherently different in the employment of noncovered workers that differentiates their work from that of noncovered workers. There are accountants, lawyers, economists, actuaries, blue-collar workers, clerks, and secretaries in both the covered and the noncovered sectors. The only distinction is that some workers are employed by employers who do not participate in the system.

It should be kept in mind, however, that some noncovered employees are low-paid workers who would actually benefit from expanded coverage. Women, for example, would benefit from wider Social Security coverage. Approximately 28 percent of women employed by the federal government in April 1978 had annual salaries below $10,000, whereas only 7 percent of the federally employed men did. Conversely, only 8 percent of the Federally employed women had salaries above $20,000 in 1978, whereas 31 percent of the men did. Similarly, members of minority groups would benefit from the redistributive aspects of Social Security. Only 12.9 percent of the whites employed by the federal government had annual salaries below $10,000 in April 1978, but 19.4 percent of minority group employees did. In comparison, 11.6 percent of minority federal workers has salaries exceeding $20,000 per year, while 37.5 percent of white Federal workers had such salaries in April 1978.

It is the redistributive aspect of Social Security that also gives rise to the third set of problems which many people believe constitutes the most important inequity resulting from the current pattern of Social Security exemptions.

Benefits Afforded Partial Participants in Social Security -- Workers with periods of noncovered employment who qualify for Social Security benefits receive higher benefits in proportion to their contributions to Social Security than do workers with only covered employment. It is important to understand that although this difference is quantifiable, the issue is still highly emotional and controversial. Language must be selected carefully so that the issues are not obscured by rhetoric.

Frequently, people who have a favorable ratio of benefits to contributions from Social Security because of periods of noncovered employment are characterized as "double dippers." The attribution is misleading and brings a perjorative tone to the discussion. Both the description and the policy solutions that have been put forward to solve the "double dipper" problem reflect a lack of understanding of the problem or of potential effective solutions.

"Double dipping" suggests receiving dual compensation or benefits based on one period of service. For people who work in noncovered employment, there is little double attribution of service both to a noncovered pension system and to Social Security. Dual beneficiary status occurs because recipients have complied with mandatory provisions under both covered and noncovered employment. While working in noncovered employment they contributed to their pension plan and became eligible for benefits. While working in covered employment they contributed to Social Security and met the eligibility requirements for a Social Security benefit as well. Many of those who receive preferential treatment from Social Security because of noncovered employment receive absolutely no retirement benefits from the noncovered employer's pension plan.

A more appropriate description widely used in the literature characterizes the relatively generous payments to people with periods of noncovered employment as "windfall benefits." The Universal Social Security Coverage Study characterized the windfalls as "unintended subsidies." Historical Congressional concern about unintended subsidies dates back to 1939 when the House of Representatives' Report on the Social Security Act Amendments of 1939 stated:

> An average wage formula will also have the effect of raising the level of benefits payable in the early years of the system, but it will reduce future costs by eliminating unwarranted bonuses payable under the present formula to workers in insured employment only a few years. These bonuses are justified, if a total wage formula is used, in the case of older and low-paid workers who retire in the early years of the system and have not had

> time in which to build up substantial benefit rights. In the long run, however, such bonuses are unwise and endanger the solvency of the system by permitting disproportionately large benefits to workers who migrate between uninsured and insured employment and accumulate only small earnings in insured employment. 3/

The Universal Social Security Coverage Study, which was mandated by the Congress as part of the 1977 Social Security Amendments, quantified the costs of these unwarranted bonuses from Social Security. The estimate is that the total bonuses exceed $2 billion per year. These are costs incurred by Social Security and borne by the taxpayers who contribute to the program. While another recommendation by the Commission would reduce these windfalls over time, extending coverage to new federal workers would help to ameliorate the problem more quickly.

The reason that these bonuses take on the magnitude that they do is because of high turnover among newly hired workers in positions not covered by Social Security and high rates of Social Security recipiency among CSRS annuitants. For the worker who spends up to five years in noncovered employment and then returns to a covered job, lifetime contributions can be reduced by 10 to 15 percent while benefits at retirement would only be reduced by 2 to 5 percent. Of newly hired federal workers 37 percent leave federal employment within five years and 49 percent leave in less than 10. Among CSRS annuitants over age 62 in 1979, 73 percent were getting a Social Security benefit and another 3 percent were eligible but had not yet claimed them. 4/

3/ House of Representatives, 76th Congress, First Session, Report no. 728, Social Security Act Amendments of 1939 (June 1, 1939), p. 10.

4/ Robert Dalrymple, Susan Grad and Duke Wilson, "Federal Civil Service Annuitants and Social Security," *Research and Statistics Note* (Washington, D.C.: Social Security Administration, December 1982), pp. 1-2.

Arguments Against Covering Federal Workers

Civil Service Retirement System (CSRS) covers federal workers and Social Security is unnecessary -- As with many policy issues the perception of this proposal's value varies from person-to-person. For the individual who ultimately receives a CSRS pension after a relatively full career of federal employment there is little need for added retirement income supplementation. For the person who falls off the merry-go-round before grasping the brass ring, however, CSRS has some gaping holes. In the discussion of arguments for coverage it was suggested that spouse and survivor protections offered by Social Security would enhance the protection afforded federal workers and their dependents. As an example of this, a recent article by Judy Mann in The Washington Post 5/ tells of two examples of divorced women whose husbands were federal employees. Shortly after their divorces their former husbands died. In one case the woman and her disabled son have to depend on SSI and food stamps for a meager living. Even after 36 years of marriage she had no pension claim. In the other case the mother of three children and homemaker had to go to find her own provisions despite 14 years of marriage. These were not problems of husbands having selected not to have survivor protection -- they were clear cases where Social Security coverage of federal workers would have benefitted survivors where CSRS did not.

It is little remembered that the Congress has already vigorously debated whether the prior existence of a pension plan should exempt and employer and his or her workers from participation in Social Security. The most heated issue in the development of the Title II provisions (old age

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5/ Judy Mann, "Survivors," The Washington Post, (Friday, February 11, 1983) p. C1.

insurance) of the original Social Security Act in 1935 was raised in the Senate Finance Committee. The issue was couched in the Clark amendment which would have exempted employers with pension programs from participation in the old age insurance program. In committee, this amendment was defeated on a tie vote. On May 20, 1935 the Senate Finance Committee filed a report in favor of the Social Security Act.

Debate on the bill in the Senate began on June 14. When the Clark amendment was reintroduced on the Senate floor, it became the subject of extended acrimonious debate. On June 19 the amendment was finally adopted by a vote of 51 to 32 and the Senate then approved the Social Security Act 77 to 6.

The Conference Committee did not begin deliberations until the end of June. All differences in the two legislative versions, with the exception of the Clark amendment, were reconciled by July 16. The conferees reported back to their respective bodies recommending adoption of agreed-upon facets of the bill and seeking further instruction on the Clark amendment. On July 17, both the Senate and the House accepted this conference report but the chambers instructed their respective conferees to hold firm to their different positions on the Clark amendment.

The Conference Committee set about having the amendment redrafted. After several weeks, the legislative drafters indicated to the committee that their work would extend beyond the end of the legislative session. The conferees then recommended that the Social Security Act be adopted without the Clark amendment, with the understanding that a joint committee be formed to develop such legislation for the next session of Congress. Such legislation was never put forward.

There is no modified federal pension to coordinate with Social

Security -- This is one of the strongest concerns that has been voiced in opposition to covering new federal workers under Social Security. To some extent this issue is jurisdictional and cannot be resolved without Congressional reorganization. Neither of the Committees with jurisdiction over Social Security in either the House or the Senate have jurisdiction over federal retirement. Legislation originating from the Committees with Social Security jurisdiction cannot include provisions for the supplemental federal retirement system. Conceivably the respective Committees with jurisdiction over federal pensions could offer legislation that would move in tandem with the Social Security bill. That does not appear likely at this time.

Outside of the legislative process there has been a great deal of developmental work done on various supplemental pension models that could be used to coordinate the federal retirement program with Social Security coverage. The Congressionally mandated study of universal coverage ordered by the 1977 Social Security Amendments provided detailed specification of four approaches to coordinate the federal pension program with Social Security coverage. 6/ The OPM actuaries and other pension specialists in OPM worked with the universal coverage study group in developing those models. The study group's models and analysis were reviewed in detail by the Office of Management and Budget, Department of the Treasury, the Department of Labor, and the Department of Health and Human Services, including the Social Security Administration.

While the ultimate level of benefits that could be provided by any one

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6/ See Chapter 5 of the final report of the Universal Social Security Coverage Study Group, *The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State and Local Government and Private, Nonprofit Organizations* (Washington, D.C., 1980).

of these models would be determined by the Congress, the coverage study group designed plans that in combination with Social Security would provide the same level of average benefits as the current CSRS. The study group focused on defined benefit plan designs in an effort to meet the benefit targets that were specified by the Secretary of the Department of Health, Education and Welfare. Their designs called for a supplemental thrift plan to encourage individual savings in addition to basic pension accruals.

Subsequent to the report of the coverage study group the Congressional Research Service has done additional analysis and design work in this area. The result of their work is incorporated in a bill developed by Senator Ted Stevens and introduced by him during 1982 as S2905. Senator Stevens' bill would provide for Social Security coverage of new workers hired by the federal government. It would also establish a new defined contribution pension program for federal workers. The combined programs would compare favorably with the retirement programs of other large employers in this country.

While there may be some legislative problems with moving a federal pension plan in tandem with Social Security, the practical issues in plan design have been researched thoroughly. From a purely mechanical perspective there is no reason that a supplemental federal pension plan to coordinate with Social Security coverage could not be designed and put in place well before January 1, 1984.

Social Security coverage of federal workers would bankrupt CSRS -- This argument is actually a multi-faceted set of analyses dealing with various aspects of past and current funding of CSRS. For example, some contend that without new contributions the CSRS would go bankrupt and taxpayers would have to shoulder the burden. The inference is that employee contributions assure the solvency of the CSRS -- dry them up and benefits cannot be paid. In fact if employee contributions were the only source of income to CSRS the fund would be depleted by 1987 or 1988 at the latest. Even if the system operated in the fashion that many federal workers believe it does, (i.e., employee contributions plus a matching agency contribution plus trust fund interest) the fund would be depleted sometime between 1993 and 1995. The fact of the matter is that the current CSRS is primarily dependent on taxpayer support on whatever basis the cost of the system is considered.

There are those who argue that taxpayer support is now required because of past imprudence: massive liabilities (i.e., benefit promises) were accumulated but never funded. For example, James Pierce in recent testimony before the House Ways and Means Social Security Subcommittee argued that "the unfunded deficit originated because the federal government failed to pay its share into the fund from 1920 to 1956." It is not clear what the government's "share" was during this period but employee contributions net of refunds were only one-quarter of one billion dollars more than government appropriations and contributions for the period 1920 to 1955. It is possible to go back and estimate what would have happened to the CSRS trust fund had the government exactly matched employee contributions in each year over the program's sixty-two year history. For example, the government made no contributions between 1921 and 1928. Had it matched employee contributions the additional accumulated contributions plus interest would have been $164 million in the trust fund at the end of 1928. The government contribution continued to fall short of matching employee contributions through 1935. By then an added $278 million would have been in the trust fund had the government matched contributions each year and paid the additional interest on them. For the next *seven years government contributions exceeded employee contributions, catching up on previous underfunding. At the end of 1941 the added trust fund balance would have been $131 million had contributions always been made on a matching basis. The government contribution rate continued to grow during World War II although a burgeoning workforce propelled employee contribution levels far beyond the employer rate. After the war there were massive withdrawals of employee contributions as war-time personnel went back to regular employment. Thus, while the government did not match employee contributions during the war, the latter did not represent actual increases in long-term liabilities. By 1949 the government, on a matching basis, was behind on contributions and additional interest to the tune of $722 million. There were only two years during the 1950s when government contributions were substantially reduced, although the government contributed less in every year than the employees. By 1959 the government was $2.7 billion behind (including interest) the employee contribution level. Beyond 1960 government contributions have exceeded employee contributions. However, because of additional interest the trust fund would have earned if contributions had always been matched the government continued to lose ground relative to the employees through the decade. By 1969, the matching shortfall reached $3.5 billion.*

If that $3.5 billion were accumulated with interest to the present it would add about $8 billion to the trust fund. However, since the passage of Public Law 91-93 the federal government has escalated its funding appropriations. By early 1973 it had paid off all prior contribution shortfalls plus interest. Since 1973 it is the employees who are behind on a matching contribution basis. By the end of fiscal 1981 their contribution shortfall plus interest was $79.9 billion. Had the system always been run on a matching contribution basis, according to my calculations, the fund would have been totally depleted some time during 1982. To have continued the program on a current cost matching basis, benefits would have had to have been cut 55 to 60 percent at that time.

The total unfunded liabilities of the CSRS at the end of 1955 were approximately $10 billion. By comparison, of the roughly $500 billion in an unfunded benefit promises on the CSRS books at the end of fiscal 1981, nearly one-quarter (23.9 percent) arose during 1980 and 1981. The growth in the CSRS unfunded liability in 1980 and 1981 was more than 10 times the total accumulation of unfunded liability over the first 35 years of the program's existence. The only reason that CSRS is solvent today is because the taxpayers have contributed more than $120 billion to the system since 1970 while employees have contributed less than $40 billion. It is clear the current CSRS is largely dependent on taxpayer support to meet current benefit payments; it continues to accumulate added liabilities for future generations of taxpayers as well.

In order for current obligations to be met in the future, whether new workers are covered by Social Security or not, the taxpayers will bear the largest share of the liabilities. One fundamental question that the Congress must address is whether covering new federal workers will raise the cost of federal retirement for U.S. taxpayers now or in the future. This is related to the last contention of those opposed to covering federal workers.

Effect on the cost of federal retirement -- Opponents of expanded Social Security coverage argue that covering new federal workers will mean higher future budgetary costs for federal retirement. The budgetary cost of *the CSRS can be described by the following simple formula:* [7]

(1) CSRS Budgetary Cost = benefits plus refunds minus employee contributions.

If new federal workers are covered under Social Security and a supplemental pension is established the implications for taxpayers will depend on several factors. In order to show the budgetary impact of covering new Federal workers under Social Security and a modified pension I have analyzed and will discuss a proposal that captures the essence of a bill (S2905) introduced by Senator Ted Stevens (R. Alaska) during 1982.

Senator Stevens' bill called for Social Security coverage coordinated with a modified federal pension for new Federal employees beginning in 1983. That is the implementation year used for this analysis; using 1984 as the first year would not significantly change the analysis or results. The analysis here breaks the ongoing costs of the total system into two components: (1) the ongoing costs associated with the closed system that would apply to old hires, and (2) the costs of the new system covering future employees. The budgetary costs of the separate systems can then be aggregated to get the combined system's cost.

The total budgetary impact of modifying CSRS is different from the effect on the various accounts taken separately. Both CSRS and Social Security are now within the unified budget. Segregating the old and new systems, the costs for the various accounts can be considered as follows:

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[7] *See Sylvester J. Schieber, The Cost and Funding Implications of Modifying the Civil Service Retirement System (Washington, D.C.: EBRI, 1982) for a complete discussion of the derivation of these estimates.*

(2) Closed CSRS Costs = benefits (old) plus refunds minus employee contributions.

(3) New CSRS Costs = benefits (new) plus refunds minus employee contributions.

(4) Social Security Costs = benefits (SS) minus employee contributions.

(5) Total Budget Cost = old CSRS cost plus new CSRS cost plus Social Security cost. 8/

Equation (2) is essentially the same as equation (1) discussed earlier, which applied to the current system. The difference is that equation (2) applied only to those workers on the payroll or persons entitled to CSRS benefits (receiving or deferred) on the assumed date the modified system would be put into operation. Equation (1), in contrast, assumed that future new workers would continue to be covered under the current system. Equation (3) represents the budgetary cost of the new federal retirement program.

Equation (4) shows the budgetary effects of Social Security coverage of new hires. The budgetary effect is different from the effect of the OASDHI accounts, in that the specific account would be credited for both employer and employee contributions. Since Social Security is in the unified budget, the employer contribution would show up as an expense in the agencies' budgets and as equal trust fund income in the Social Security accounts. The two would cancel each other out.

The total budgetary costs, modifying CSRS as considered here, can be calculated according to equation (5) and compared with the cost of the current system derived on the basis of equation (1). Table 1 shows the projected

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8/ See Sylvester J. Schieber, The Cost and Funding Implications of Modifying the Civil Service Retirement System (Washington, D.C.: EBRI, 1982) for the detailed projections of the component elements of each of these equations.

TABLE 1

FEDERAL AGENCY AND GENERAL REVENUE EXPENDITURE PROJECTIONS FOR THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM AND MODIFIED SYSTEM IN CONJUNCTION WITH NEWLY HIRED WORKERS UNDER SOCIAL SECURITY, SELECTED YEARS 1983-2050

Year	Current System (billions)	Modified System (billions)	Net Savings (billions)
1983	$ 17.9	$ 17.7	$ 0.2
1984	20.0	19.9	0.1
1985	22.4	22.2	0.2
1986	24.3	24.1	0.2
1987	26.3	26.1	0.2
1988	28.4	28.1	0.3
1989	30.3	30.0	0.3
1990	32.3	31.7	0.6
1991	34.2	33.7	0.5
1995	42.4	41.6	0.8
2000	54.5	54.7	-0.2
2005	70.8	68.1	2.7
2010	93.2	86.1	7.1
2015	122.4	102.9	19.5
2020	161.9	130.8	31.0
2025	212.6	167.3	45.3
2030	277.7	211.8	65.9
2035	360.0	273.6	86.4
2040	465.7	360.3	105.4
2045	604.1	499.2	104.9
2050	786.7	683.6	103.1

SOURCE: Sylvester J. Schieber, The Cost and Funding Implications of Modifying the Civil Service Retirement System, (Washington, D.C.: EBRI, August 19, 1982). Tables 2,6,and 8.

budgetary cost of the current system and the proposed modified system and the net differences. Based on the projections, moving to the modified system on January 1, 1983, would reduce the budgetary costs of federal retirement by $1 billion over the first five years. While the cost savings during the early years would be moderate in relative terms, the actual numbers that would show up in the unified budget might be affected by moving accounts in or out of the budget. This would not affect taxpayer costs for federal retirement.

The Stevens bill would require coverage of newly hired workers and offer incentives for current workers to move to the new system. The savings from modifying CSRS in accordance with this proposal would grow significantly after the turn of the century as the federal work force becomes predominantly covered by the new system. Ultimately, the savings would grow to nearly one-quarter of the current system's projected cost. The net savings estimates of moving to the modified system do not include any savings that could be realized if Social Security windfall reduction provisions for old hires were implemented.

In sum, modifying the CSRS along the lines of the Stevens proposal would result in significant budgetary savings over both the short- and long-term. Coverage of new hires under Social Security would maintain the level of employee contributions for retirement purposes. In a budgetary sense then, any proposal coupled with Social Security coverage that just maintains or does not increase total federal retirement benefits cannot cost the taxpayers more than the current system.

Another point opponents of Social Security coverage of federal workers argue is that such a policy would ultimately raise Social Security costs. There has never been a set of cost estimates by any of the responsible parties involved that shows the net cost of Social Security rising as a result of covering federal workers. Wishing that the numbers showed such a cost increase or merely saying it, does not make it so. In fact, the estimates by the Social Security actuaries have consistently shown significant short- and long-term *savings for other payroll taxpayers if federal workers are covered under Social Security.*

OTHER CONSIDERATIONS

There are certain facets of the package submitted by the National Commission on Social Security Reform that warrant further consideration. The provisions for taxing benefits would introduce a "notch" such that in certain instances, an added dollar of non-Social Security income will result in significant reductions in disposable income. Such a policy would appear to have inherent inequities. It is our understanding that subcommittee staff is aware of this problem and is devising a legislative package that includes a more equitable provision.

Finally, the proposal to apply the FICA tax to contributions to cash or deferred arrangement (CODA) plans set up under S401(k) of the IRS code may be inconsistent with other general and FICA taxing policy. Given that there has been absolutely no analysis of the revenue effects of this proposal or its potential implications for the distribution of ultimate benefits such a policy may deserve additional scrutiny.

The **Chairman**. Senator Moynihan?

Senator **Moynihan**. Thank you, Mr. Chairman.

This has been very powerful and very direct testimony.

Could I ask, Dr. Schieber, do I take it you worked in the Office of the Actuary at the Social Security?

Dr. **Schieber**. No, I did not. I worked for the Social Security Administration for 8 years. I started in the Office of Research and Statistics; I spent 2 years as the Deputy Research Director at the Universal Social Security Coverage Study; I ended up as the Acting Deputy Director of the Office of Policy Analysis. I have worked very directly with the Office of the Actuary over the years.

Senator **Moynihan**. Well, I think I would like to just call attention to the statement that among civil service retirement system annuitants over 62 in 1979, 73 percent were getting a social security benefit, and another 3 percent were eligible in that timeframe.

Dr. **Schieber**. That is correct.

Senator **Moynihan**. So this is agreed on—three-quarters of persons who retire under the Federal civil service retirement plan are also getting social security?

Dr. **Schieber**. In my testimony I give a specific cite.

Senator **Moynihan**. "The Dalrymple, Grad, and Wilson article—" et cetera?

Dr. **Schieber**. That is correct.

Senator **Moynihan**. The other thing is, is your statement that from a purely mechanical perspective there is no reason that a supplemental Federal pension plan coordinated with social security coverage could not be designed and put into place well before January 1, 1984? Are you an overachiever? Don't you think enough work has been done?

Dr. **Schieber**. No. I do work long hours, but I'm not an overachiever.

I think if you look around this society, this economy, what you see is employers redesigning, replacing pension plans on an ongoing basis, modifying their pension plans.

I did not hear Mr. Devine's analysis, and I certainly don't share all of Mr. Devine's perspectives on the world. Maybe one of the reasons that he suggested they could design a plan fairly quickly is because his Office of the Actuary during the period 1978 through 1980 did a fairly intensive study of this very issue.

Senator **Moynihan**. Of how you would do it?

Dr. **Schieber**. That is correct, in cooperation with the universal social security coverage study.

Senator **Moynihan**. So it's not just sitting down and saying, "Let's see. OK, here's a good idea."

Dr. **Schieber**. That is correct.

Senator **Moynihan**. Even though there are 36-some odd; there aren't more than three systems, basically.

Dr. **Schieber**. Well, for example, I believe the system that covers the head of GAO, I think, has two participants.

Senator **Moynihan**. That's 1 of the 36?

Dr. **Schieber**. That's correct.

So some of those systems could be dealt with, comparatively, with the civil service retirement system.

Senator MOYNIHAN. Give me an average, would you, of the basic civil service system. What portion falls to the employee, coveragewise?

Dr. SCHIEBER. What proportion of all Federal employees are covered by the civil service retirement system?

Senator MOYNIHAN. Yes.

Dr. SCHIEBER. There are about 10 percent of Federal employees who matriculate through the system on a temporary basis. They are already covered by social security. They are not covered by a Federal pension.

There is probably another 7 or 8 percent of Federal workers who are covered by one of the other systems.

Senator MOYNIHAN. Including the two that has the head of the GAO in it?

Dr. SCHIEBER. Right.

The Presidents have their own system; there are several unique small systems. Systems like the Foreign Service are somewhat larger. The CIA has its own system.

Senator MOYNIHAN. But 90 percent of the Federal workers are in one system?

Dr. SCHIEBER. That is correct.

Senator MOYNIHAN. Thank you very much. It is very good testimony.

The CHAIRMAN. Is the CIA system secret? [Laughter.]

Senator MOYNIHAN. Mr. Chairman, I will be happy to take on this study.

The CHAIRMAN. All right.

Dr. SCHIEBER. They would not communicate with us at the universal coverage study.

The CHAIRMAN. Well, that figures.

Senator Durenberger?

Senator DURENBERGER. No questions.

The CHAIRMAN. Dr. Schieber, first I want to include in the record your op ed piece in the Washington Post of February 4, 1983. It answered a number of important questions. One has just been referred to by Senator Moynihan—the number of Federal workers who retire and also receive social security benefits. It is not that they don't like the program; they are very happy to have it in addition to their regular program. I don't quarrel with that, except we are trying to make certain there aren't any windfall benefits. We hope we have addressed that in the compromise package,

[The article follows:]

Sylvester J. Schieber

That Propaganda About Federal Pensions

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By Zarko Karabatic

Several of the organizations that represent federal civilian and postal workers have begun a full-scale attack on the proposal to cover new federal workers under Social Security. In each instance, the presentation distorts the actual facts pertinent to the consideration of this proposal made by the National Commission on Social Security Reform.

The attack is being staged through a series of newspaper and radio advertisements. In addition, a set of statistical analyses that purport to show the cost of the proposal are being distributed around Capitol Hill. Finally, op-ed pieces by union leaders have appeared in the newspapers (for example, Kenneth Blaylock's piece in The Post on Jan. 27)..These presentations make three basic points.

First, without new contributions the Civil Service Retirement System (CSRS) would go bankrupt, and taxpayers would have to shoulder the burden. The implication is that employee contributions ensure the solvency of the CSRS—dry up the contributions and benefits cannot be paid.

The fact is that if employee contributions were the only source of income to CSRS the fund would be depleted by 1987 or 1988 at the latest. Even if the system operated in the fashion that many federal workers believe (i.e., employee contributions plus a matching agency contribution plus trust fund interest) the fund would be depleted sometime between 1993 and 1996. The fact of the matter is that the current CSRS is primarily dependent on taxpayer support on whatever basis the cost of the system is considered.

There are those who argue that taxpayer support is now required because of past imprudence: massive liabilities (i.e., benefit promises) were accumulated but never funded. The National Federation of Federal Employees argues that "the unfunded deficit originated because the federal government failed to pay its share into the fund from 1920 to 1956." This perception ignores the recent unprecedented growth of these unfunded obligations.

Of the roughly $500 billion in unfunded benefit promises on the CSRS books at the end of fiscal 1981, nearly one-quarter (23.8 percent) arose during 1980 and 1981. Not only is the current CSRS largely dependent on taxpayer support to meet current benefit payments; it continues to accumulate added liabilities for future generations of taxpayers as well.

The second point opponents of expanded Social Security coverage argue is that covering new federal workers will mean higher future budget costs for federal retirement. The annual budget cost of federal retirement equals the total benefits paid minus employee contributions. The Senate Governmental Affairs Committee recently released an analysis that shows that covering new federal workers under Social Security and providing them with supplemental pension protection could actually reduce the budgetary burden of federal retirement.

The savings of such a program depend on the level of benefits provided by the combined elements of the system and the level of total contributions required of those who would participate in it. It is unlikely that the relative level of retirement benefits going to future federal workers will be any higher than now. Further, it can be easily demonstrated that the future net contributions of federal workers to Social Security would be roughly equivalent to their current contributions to CSRS.

The third point opponents of Social Security coverage of federal workers argue is that such a policy would ultimately raise Social Security costs. There has never been a set of cost estimates by any of the responsible parties that shows the net cost of Social Security rising as a result of covering federal workers. Wishing that the numbers showed such a cost increase, or merely saying it, does not make it so. In actuality, the estimates by the Social Security actuaries have consistently shown significant short-and long-term savings for other payroll taxpayers if federal workers are covered under Social Security.

Federal workers have borne the brunt of some reprehensible political rhetoric in recent years. They now feel they are being singled out to bear an unjust share of a budget-balancing exercise.

One of the reasons they are being singled out on the pension side is that they stand alone in many regards. They do not participate in Social Security, although three-fourths ultimately get benefits. They receive better cost-of-living allowances than most retirees. Finally, they are perceived to retire earlier than most workers. Whether it is right or wrong, there is a broad perception that CSRS provides much more generous protection to federal workers than is available to taxpayers who bear most of the CSRS cost.

This perception has led to proposals in the 1984 budget that would raise the CSRS contribution from 7 percent to 11 percent of salary by 1985, an increase of 57 percent. Workers reaching retirement eligibility at age 55 after 1984 would only get half the benefits now provided by CSRS and would have to work until age 65 to get full benefits. By comparison, the national commission recommendations on raising Social Security taxes would only increase program revenues by about 4 percent between 1983 and 1989. Their recommendations for delaying the 1983 COLA and taxing benefits amounts to about 4 percent of projected cash benefits over the period.

If federal workers were participating in Social Security, they would be subject to the same changes that were being discussed for the rest of society for their basic retirement program costs and benefits. If they had a supplemental retirement program that compared with those provided by other large employers, they could get much greater public sympathy and support against arbitrary changes in their own retirement programs.

Even with carefully worded statements and supporting analyses, federal workers and retirees have a difficult case to make to the general public. Attempting to confuse the Social Security policy discussion or to destroy the compromise package through partial or misleading analyses of federal pension costs will not help their cause, their credibility, or their standing with the public.

The writer is research director of the Employee Benefit Research Institute, a nonprofit organization.

Post 2/4/83

The CHAIRMAN. Another argument is made that you touched on briefly that we really are going to bankrupt both systems now if we bring in new-hires. That was expressed by previous witnesses, and you touched on it in your concluding remarks.

Dr. SCHIEBER. Well, between 1970 and the end of fiscal 1982 the Federal employees contributed about $38 billion to their civil service retirement system. That is not net of refunds because they can withdraw their contributions but that is total gross contributions. The appropriations from general revenues, on the other hand, were $120 billion over that same period.

Now, that ratio is actually getting worse, from the perspective of the taxpayers. We are moving to a position where the taxpayer cost, the general revenue appropriation is about $4.50 for each dollar of collection from the employee. That situation is projected to get slightly worse over the next 30 to 40 years.

There is a very massive amount of unfunded liability in the system—about $530 to $550 billion. If you want to go back and look at the prior less-than-full contributions and don't even consider the catchup we have made since 1969, we would add about $10 billion to that trust fund.

Now we are accumulating unfunded liabilities. In 1980 and 1981 we accumulated in the civil service retirement system additional unfunded liabilities of $96 billion.

The CHAIRMAN. In a 1-year period?

Dr. SCHIEBER. A 2-year period—1980 and 1981.

Now we are losing ground on that system. It is a very expensive system. In order to meet the liabilities that are accruing there the Federal taxpayers are going to have to pay a very large portion of that. Those liabilities are going to have to be funded at some point, in order for us to make those benefit payments. We can't get around that.

The ultimate question, the bottom-line question, is whether or not coordinating Federal pension coverage for new-hires with social security will raise the cost of retirement to the taxpayer.

And I guess there is a second, very serious concern that was being voiced earlier: Will it savage the benefits that go to Federal workers?

The answer to that is, if you do not increase the benefits that go to workers in toto, and you do not decrease the contributions you are getting from workers to either one of the funds inside the budget, if you hold those two things constant, then the cost will be constant. If you provide somewhat less generous benefits, you will save the taxpayers some money.

Now, you can do exactly the same thing under the civil service retirement system as is being proposed. You can make those systems much more expensive. You could follow the route that you took when the military was brought under social security coverage. We had a pension plan intact, a relatively generous pension plan, and we just added social security on top of it.

Now, conceivably you could add social security on top of the civil service retirement system, but there would probably be some squealing going on out in Kansas.

The CHAIRMAN. Finally, I think you have made the point in your written statement that there is rather sharp opposition to increasing the retirement age in the long term and also lack of support for raising taxes. I must say that is pretty well reflected among Members of Congress.

Senator Boschwitz was testifying earlier this morning. Every question where he had the word "tax" in it, he had a negative response.

One thing that he suggested in his questionnaire was changing the bend points in the benefit formula as a way to attack the financing problem without getting into either the tax or the retirement age. You do address that in your written statement, is that correct?

Dr. Schieber. That's correct. I have done some simulation analysis of the implications of the options that were considered by the National Commission. Pictorially it is shown on page 8 of my prepared testimony.

The top figure shows the average benefits. First of all, the slanted solid line in the top figure shows the average family benefits at age 65 under my simulations that would be paid between 1985 and 2015.

The lower line, the dotted line, shows the benefits, again in real dollars, that would be paid if you modified the bend point formula according to the first option you discussed in the National Commission package. That was to index bend points by 75 percent of wages instead of full-wage increases for a limited period of time.

Under the assumptions that were being used by the actuaries at that point in time, to get the savings that you talked about in the report you had to do that for 16 years. And so, in my simulation it was turned on for 16 years.

What you see is that over the period you continue to have real increases in benefit levels from one period to the next, but you have a gradual savings that become somewhat magnified in the outyears.

The bottom figure takes into account total income. The top figure is just social security income; the bottom figure includes social security income, pension income, IRA income, and additional earnings that the family might continue to accrue, because we had some people in the simulation that continued to work beyond age 65.

The top line, again, is the current policy simulation. The middle dotted line is the adjustment to the benefit formula. The bottom dashed line is the adjustment to the benefit formula plus taxing 50 percent of benefits—taxing 50 percent of social security benefits.

Now again, what you see is that over this period benefits continue to increase in real terms, and in fact what the bottom picture says is that, instead of total income rising by 1.9 times in purchasing power between 1985 and 2015, it would only rise by about 1.8 times. And I am not convinced that over that span of years many people are going to notice such an adjustment.

Now, if you are concerned that you may deflate the benefit formula too quickly, it seems to me you could put a safety clause in there that says, "Real benefits will not decline from one cohort to the next, or would not decline below what they would have been had you given full wage indexation for that year."

If you started this in 1984, the projected savings in the Commission report I believe were 1.08 percent of payroll. Now, that's somewhat in excess of the projected shortfall.

It has been suggested by some people that you may want to go ahead and do this. You may want to monitor it fairly closely through the advisory council process or some other process, and you may want to tamper with the benefit formula at the margin, from time to time.

There is also a problem that the deficits may get larger in the future. So a little bit of safety-valve might not hurt, either.

The CHAIRMAN. Well, we appreciate very much your statement. We may be asking for your comments as we get into the markup period.

Thank you very much.

Dr. SCHIEBER. Thank you, sir.

Senator MOYNIHAN. Thank you, Doctor.

Dr. SCHIEBER. Thank you, Senators.

The CHAIRMAN. Our final panel today consists of Ms. Judy Goldsmith, president, National Organization of Women; Dr. Mary Gray, professor, department of mathematics, American University and national president of the Women's Equity Action League, accompanied by Maxine Forman, director, Office of Research and Policy Analysis, Women's Equity Action League, Washington, D.C.; and Ms. Nancy Duff Campbell, attorney, National Women's Law Center.

You may proceed in any way you wish. Your entire statements will be made a part of the record. We hope that you might summarize or point out the highlights in your statement.

STATEMENT OF MS. JUDY GOLDSMITH, PRESIDENT, NATIONAL ORGANIZATION FOR WOMEN, WASHINGTON, D.C.

Ms. GOLDSMITH. I will present an excerpted version of our testimony, in the interests of time.

My name is Judy Goldsmith. I am pleased to testify today about the recommendations of the National Commission on social security reform.

The National Organization for Women, with nearly 250,000 members, the Nation's largest organization dedicated to eradicating sex discrimination, has long been concerned with inequities in social security that have had a disparate and harmful impact on women.

NOW has followed the Commission's deliberations closely, mindful of social security's great importance for the 19 million women now receiving benefits, the 51 million women who pay social security taxes, and the millions more who will pay those taxes and receive benefits in the future.

Ninety-one percent of retired women receive social security benefits; by contrast, only 10 percent have private pensions. Social security is all the more important to them because it is not a gift but an earned benefit, a system of social insurance in which all contributors have a very important stake.

Yet, social security as we have known it for nearly a half century places the overwhelming majority of American women at a significant disadvantage. Social security penalizes women for entering the paid labor force when they have no choice but to do so. The vast majority of women who are working outside of the home must do so, even though they will earn only 60 percent as much as a man in a similar job.

And social security perpetuates women's poverty. Largely because of its systemic bias against working women, the average woman's social security benefit is $334 per month, only 87 percent of the poverty line. In fact, in 1982 two-thirds of all retired women received benefits that were under the poverty line.

This arises simply because a system constructed to meet the needs of the average family in the 1930's cannot help but fail the average family of the 1980's. The effect, however, is inescapable. Social security penalizes women who work in the home, and it penalizes women who work in the work force.

While a woman is rearing children or caring for an aged or disabled family member, social security counts those years as "zero earnings." Those zeros are averaged into her benefit, and the benefit is reduced as a result.

This practice affects the overwhelming majority of American women. In 1940, the labor force participation rate for all women was 28 percent. In 1948, the first year such statistics were kept, the rate for married women was 13 percent. Today the rate for all women is more than 53 percent, and for married women, 49 percent. The Bureau of Labor Statistics expects the rate for all women to level off between 60 and 65 percent after 1990.

Data from the National Longitudinal Studies on Mature Women indicate that between 60 and 67 percent of all married women who will retire in 1990 will have been in paid employment for 10 years or more, long enough to qualify for social security in their own right. Nearly 80 percent of married women who will retire in 2000 will have spent 10 years or more in paid employment.

While these figures reveal the revolution in the number of women in the work force, they do not necessarily indicate a major change in the work patterns of women in paid employment. The Longitudinal Studies show that only 8 percent of all women who will retire in 1990 will never have joined the work force. Of women who have worked, nearly 85 percent have interrupted their careers to work in the home. The figure is little different for women who will retire in 2000—82 percent.

This pattern may be changing. It may not. We can't say for certain. However, from the few data available today we can posit with some assurance that the number of years spent in the home may continue to decrease, but the percentage of women who interrupt their paid employment to work in the home will not decrease by a large factor.

Social security discourages women from working in other ways as well. Two-earner couples, for instance, receive smaller social security benefits than one-earner couples with the same family income. The percentage of couples with two earners has skyrocketed during the past 40 years and shows every indication of continuing to rise. Thus, a larger than anticipated and ever-increasing pool of families is affected.

Social security offers little protection to divorced women, especially those who spend most of their married life working in the home.

In 1935, one out of six marriages ended in divorce. In 1976 the figure was one out of three. And today it is estimated at close to one out of two. Yet social security continues to treat marriage as lifelong.

Until 1977, a divorced woman could not qualify for spouse benefits based on her ex-husband's earnings unless the marriage had lasted 20 years. In 1977 Congress reduced that to 10 years. Since approximately two-thirds of all marriages dissolve before the tenth year, this change failed to protect the vast majority of women.

Despite these serious flaws in social security, NOW firmly believes that it must be preserved, and categorically rejects any attempt to replace it with a voluntary plan or otherwise change its structure radically. We believe this mandatory system of social insurance has generally served Americans well for nearly 50 years, although it clearly requires revision to serve women adequately.

We are pleased that the Commission has rejected the various schemes put before it to reduce social security to a combination of welfare for the needy and a retirement income plan for those fortunate enough to be able to defer today's income until tomorrow.

NOW also applauds the changes suggested in benefits for divorced spouses and survivors. While these changes will undoubtedly be of greatest import to women affected by them, and move in the direction of making the system more equitable, we think it important to stress how few women will benefit from them.

Approximately 111,000 women could benefit from the proposal to continue social security benefits after remarriage for more older women. Yet, they are not likely to, as the remarriage rate for older women is quite low.

Similarly, allowing qualified divorced women to get spouse benefits, even if the ex-spouse has not retired, is a much-needed change, but it will aid a very small group of women. Only 11 percent of all men begin to collect benefits after age 65, and the percentage with divorced spouses to whom they had been married for at least 10 years—the only group of divorced spouses that qualifies for benefits based on their ex-spouses earnings—is undoubtedly far smaller.

Wage indexing deferred survivor benefits would mean the difference between poverty and near comfort for many of the 66,000 widows who would be affected. If the economy once again performs normally and wage growth outstrips price increases, these women would gain an important protection denied them by the current arrangement.

We are especially glad the Commission has suggested increasing benefits for disabled widows and widowers who enter the system between ages 50 and 59. In 1979 alone almost 15,000 disabled widows in this age category claimed benefits; by the year's end, a total of 62,000 were on the rolls.

This proposal is particularly important because it is not based on an actuary's table but on the simple principle of fairness. In 1979, a disabled 50-year-old widow received a monthly benefit averaging $155—53 percent of the poverty line. Under this proposal she would receive $222—still only 75 percent of the poverty line, but a marked improvement over her present situation.

NOW is disturbed, however, that the Commission has not tried to remedy the systemic inequities in social security, and as a result the reform package fundamentally fails to address the needs of today's families. Unless those needs are met, reform is meaningless. Unless they are met this year when the attention of Congress and the country is focused on social security, they may not be met for decades, and social security will fail American women more profoundly with each passing year.

Social security must begin to view marriage as an economic partnership—the economic partnership that it is. This is not a radical idea. Indeed, in the Economic Recovery Tax Act of 1981, Congress recognized this partnership by exempting estates passed to the surviving spouse from inheritance taxes.

The CHAIRMAN. I might ask you to summarize, Judy. Could you?

Ms. GOLDSMITH. All right, I will.

In essence, the concepts that NOW is supporting involve a program of earnings sharing, a program that would do away, essentially, with the concept of dependents' benefits, which are both degrading and not a realistic reflection of the reality that American families face today, and would propose instead that we create an earnings-sharing program under which money that was earned would go into individual accounts. In other words, if there were a primary wage earner and a homemaker, the money earned by the primary wage earner would go into two separate accounts to be divided equally, those amounts also to be portable, to be divisible upon divorce, and also inheritable.

One further major provision that we propose is that drop-out years for the care of dependents—either minor children, the elderly over age 65, and disabled individuals—be allowed and not counted as zeros to be computed into the total benefits received by women or by people who are caring for dependents in the home.

That is the essence of our proposals, and I will be happy to respond to any questions or give further details in questions.

[The prepared statement of Ms. Goldsmith follows:]

I am pleased to testify today about the recommendations of the National Commission on Social Security Reform. The National Organization for Women, with nearly 250,000 members the nation's largest organization dedicated to eradicating sex discrimination, has long been concerned with inequities in Social Security that have had a disparate and harmful impact on women.

NOW has followed the Commission's deliberations closely, mindful of Social Security's great importance for the 19 million women now receiving benefits, the 51 million women who pay Social Security taxes and the millions more who will pay those taxes and receive benefits in the future.[1] 91 percent of retired women receive Social Security benefits; by contrast, only 10 percent have private pensions.[2] Social Security has made these women more self-sufficient, has given them some freedom from the coldness of charity, from government relief for the needy, from having to depend upon their children for support. Social Security is all the more important to them because it is not a gift but an earned benefit, a system of social insurance in which all contributors have a very important stake.

Yet Social Security as we have known it for nearly a half-century places the overwhelming majority of American women at a significant disadvantage. Social Security penalizes women for entering the paid labor force when they have no choice but to do so. The vast majority of women who are working outside of the home must do so, even though they will earn only 60 percent as much as a man in a similar job.[3] And Social Security perpetuates women's poverty. Largely because of its systemic bias against working women, the average woman's Social Security benefit is $334 per month, only 87 percent of the poverty line.[4] In fact, in 1982 66 percent of all retired women received benefits that were under the poverty line.

This arises simply because a system constructed to meet the needs of the average family of the 1930s cannot help but fail the average family of the 1980s. The effect, however, is inescapable. Social Security penalizes women who work in the home and it penalizes women who work in the workforce.

While a woman is rearing children or caring for an aged or disabled family member, Social Security counts these years as "zero earnings." These "zeros" are averaged into her benefit, and the benefit is reduced as a result.

This affects the overwhelming majority of American women. In 1940, the labor force participation rate for all women was 28 percent. In 1948, the first year such statistics were kept, the rate for married women was 13 percent.[5] Today the rate for all women is more than 53 percent, and for married women, 49 percent.[6] The Bureau of Labor Statistics expects the rate for all women to level off between 60 and 65 percent after 1990.

Data from the National Longitudinal Studies on Mature Women indicate that between 60 and 67 percent of all married women who will retire in 1990 will have been in paid employment for ten years or more, long enough to qualify for Social Security benefits in their own right. Nearly 80 percent of married women who will retire in 2000 will have spent ten years or more in paid employment.[7]

While these figures reveal the revolution in the number of women in the work force, they do not necessarily indicate a major change in the work patterns of women in paid employment. The Longitudinal Studies show that only 8 percent of all women who will retire in 1990 will never have joined the paid work force. Of women who have worked, nearly 85 percent have interrupted their careers to work in the home. The figure is little different for women who will retire in 2000, 82 percent.

This pattern may be changing. It may not. We can't say for certain. However, from the few data available today, we can posit with some assurance that the number of years spent in the home may continue to decrease, but the percentage of women who interrupt their paid employment to work in the home will not decrease by a large factor.[8]

Social Security discourages women from working in other ways as well. Two-earner couples, for instance, receive smaller Social Security benefits than one-earner couples with the same family income. The percentage of couples with two earners has skyrocketed during the past forty years and shows every indication of continuing to rise. Thus a larger-than-anticipated -- and ever-increasing -- pool of families is affected. The disparity is not small. In a two-earner couple in which each spouse had average indexed earnings of $6,000 per year, each earner would receive an annual Social Security benefit of $3,173, a combined benefit of $6346. A one-earner couple with average indexed earnings of $12,000 yearly would get an annual benefit of $7,630, 20.2 percent more than the two-earner counterpart.[9]

In 1935, one out of six marriages ended in divorce. In 1976 the figure was one out of three, and today it is estimated at close to one out of two.[10] Yet Social Security continues to treat marriage as life-long, and offers little protection to divorced women, especially those who spend most of their married life working in the home.

Until 1977, a divorced woman could not qualify for spouse benefits based on her ex-husband's earnings unless the marriage had lasted twenty years. In 1977, Congress reduced that to ten years. Since approximately two-thirds of all marriages dissolve before the tenth year, this change fails to protect the vast majority of women.[11]

Despite these serious flaws in Social Security, NOW firmly believes that it must be preserved, and categorically rejects any attempt to replace it with a voluntary plan or otherwise change its structure radically. We believe this mandatory system of social insurance has generally served Americans well for nearly fifty years although it clearly requires revision to serve women adequately. We are pleased that the Commission has rejected the various schemes put before it to reduce Social Security to a combination of welfare for the needy and a retirement income plan for those fortunate enough to be able to defer today's income until tomorrow.

We recognize the necessity of solving both Social Security's short-term and long-term financing problems now, and understand the difficulty of finding attractive solutions. The Commission has shown considerable sensitivity to the needs of poor and near-poor beneficiaries, and obviously has tried to avoid burdening them with deep benefit cuts. We would have preferred that the Commission had not found it necessary to tamper with the cost of living adjustment, which keeps millions out of poverty, but the six month delay is not an unbearable price for ensuring the system's solvency. Similarly, we commend the Commission's decision not to rely solely on increases in the payroll tax for generating additional income, as this regressive tax places its heaviest burdens on lower-income persons, the majority of whom are female.

NOW applauds the changes suggested in benefits for divorced spouses and survivors. While these changes will undoubtedly be of the greatest import to women affected by them, and move in the direction of making the system more equitable, we think it important to stress how few will benefit from them.

Approximately 111,000 women could benefit from the proposal to continue Social Security benefits after remarriage for more older women. Yet they are not likely to, as the remarriage rate for older women is quite low. In 1977, the remarriage rate per 1,000 women aged 45-64 was 13.6, and for women 65 and older, 2.6.[12]

Similarly, allowing qualified divorced women to get spouse benefits even if the ex-spouse has not retired is a much-needed change, but will aid a very small group of women. Only 11 percent of all men begin to collect benefits after age 65, and the percentage with divorced spouses to whom they had been married for at least ten years -- the only group of divorced spouses that qualifies for benefits based on their ex-spouses' earnings -- is undoubtedly far smaller.[13]

Wage indexing deferred survivor benefits would mean the difference between poverty and near comfort for many of the 66,000 widows who would be affected.[14] If the economy once again performs "normally" and wage growth outstrips price increases, these women would gain an important protection denied them by the current arrangement.

We are especially glad the Commission has suggested increasing benefits for disabled widows and widowers who enter the system between ages 50 and 59. In 1979 alone almost 15,000 disabled widows in this age category claimed benefits; by the year's end a total of 62,000 were on the rolls.[15] This proposal is particularly important because it is not based on an actuary's table but on the simple principle of fairness. In 1979, a disabled 50 year-old widow received a monthly benefit averaging $155, 53 percent of the poverty line.[16] Under this proposal she would receive $222, still only 75 percent of the poverty line, but a marked improvement over her present situation.

NOW is disturbed, however, that the Commission has not tried to remedy the systemic inequities in Social Security, and as a result the "reform" package fundamentally fails to address the needs of today's families. Unless those needs are met, reform is meaningless. Unless they are met this year, when the attention of Congress and the country is focused on Social Security, they may not be met for decades and Social Security will fail American women more profoundly with each passing year.

Social Security must begin to view marriage as the economic partnership that it is. This is not a radical idea; indeed, in the Economic Recovery Tax Act of 1981, Congress recognized this partnership by exempting estates passed to the surviving spouse from inheritance taxes. The income on which Social Security taxes is paid is income available to the family, yet to Social Security it belongs only to the individual. The result is that the system regards women with low lifetime earnings as dependents of their husbands, with no credit for any contributions to Social Security they may have made.

NOW supports "earnings sharing." At its basic level, this means establishing separate Social Security "accounts" for every person. When unmarried, one's own earnings would be recorded in one's account; when married, the couple's combined earnings would be equally divided between each spouse's account. At retirement, each person would receive a Social Security benefit based on the record of earnings in the account. Earnings "credits" accumulated during a marriage should be automatically transferred to the surviving spouse or ex-spouse upon the death of her or his former partner.

Earnings sharing would ensure that all employed women benefit from their Social Security contributions. It would offer special protection to divorced women because the record of combined earnings would be portable (and thus outlast the marriage). Lifetime homemakers who divorce before the tenth year of marriage would benefit significantly. Today they would not qualify for a spouse benefit based on their ex-husband's earnings, and every year working in the home would reduce the earnings history on which their own worker's benefits would be based. Under earnings sharing, however, in every year that one partner is employed, both partners get credit for half those earnings.

Earnings sharing would offer greater protection to the majority of women who will retire in the future, and as a result will restore the fairness that has been missing from Social Security for too long. But by itself it would not adequately protect women who must work in the home. Caring for dependents is the near-exclusive province of women; while none doubts both the amount of work and the social benefits involved, Social Security fails to reward this work with adequate benefits.

NOW supports allowing Social Security "drop-out years" for time spent caring for a child under 16, a retiree over age 65, or a person who meets Social Security's definition of disability. To qualify, the dependent would have to reside with the caretaker, and the caretaker could not earn enough income to get Social Security coverage for that year. Those years would simply not be counted when computing retirement or disability benefits. We reject the idea that the number of "drop-out years" should be capped and any excess included in the benefit calculation. These "dependents' care credits" are based on the principle that this work, though unpaid, is of enormous benefit to society and should not impose any penalties on the women who must undertake it.

We would put these changes into the law now, to be phased in between 2000 and 2010. This would give adequate warning of the changes to future retirees, who could plan for retirement accordingly, and the changes would coincide with the period of Social Security's largest expected surplus.

NOW recognizes that these essential reforms do not come cheap, and that Social Security as currently financed could not afford them. These changes must be paid for; we would not suggest otherwise. Even after Congress decides how to close the full 1.8 percent of payroll long-term deficit, there will remain a variety of options for raising the required funds for these important reforms. Congress could, for example, subject a portion of fringe benefits to Social Security tax. The 1982 Social Security Trustees Report assumes that fringe benefits will grow as a portion of total employee compensation from 16 percent today to 38 percent in 2060. It is well within Congress's power to tax a part of this now-untaxed compensation. (Congress could, for instance, phase in a tax on fringe benefits in excess of 25 percent of total compensation.) Indeed, good public policy almost demands that such a large amount of untaxed compensation not remain uncaptured.

Good public policy certainly demands that Social Security treat women more equitably, else the poverty that plagues today's generation of elderly women will visit tomorrow's as well. In July a reporter telephoned to tell NOW of the Social Security Administration's remarkable new computers, which can estimate benefit levels 75 years from now. These computer runs revealed, among other things, that today's disparity between men's and women's Social Security benefits would remain the same over the 75 year projection period. Women would fare no better in 2060 than they do today. What, we asked, does Social Security propose to do about this problem? Why, nothing, the reporter replied, saying that the Social Security Administration did not consider it a problem.

The federal government has for a generation warred on poverty. We must not and will not ignore the poverty of elderly women. We will not remain silent while our primary system of social insurance treats half the nation unfairly and perpetuates its poverty. Congress must ensure that the retired women of the future fare better than SSA is willing to let them. Congress can best do so by immediate passage of earnings sharing and dependents' care credits. Unless Congress acts now, Social Security will continue to short-change American women, with disastrous results for women and the country.

# # #

FOOTNOTES

[1] Social Security Administration, 1982 Trustees Report.

[2] National Commission on Social Security Reform, Memorandum Number 27, "Pension Coverage by Sex," June 1982.

[3] Census Bureau, Statistical Abstract of the United States, 1982.

[4] Social Security Administration, 1982 Statistical Supplement, p. 63.

[5] Census Bureau, Historical Statistics of the United States, 1978.

[6] Statistical Abstract

[7] National Longitudinal Study on Mature Women, unpublished data collected in 1976.

[8] See, e.g., testimony of Steven H. Sandell of the National Commission for Employment Policy before House Ways and Means Subcommittee on Social Security, "Demographic Trends and the Social Security System," December 2, 1980.

[9] Social Security Administration

[10] Bureau of the Census, Survey of Marital History, Current Population Report, Series P-20, Number 297, 1976. Estimate for current figure is from preliminary data that will update this report.

[11] Ibid.

[12] Women's Research and Education Institute, "Saving Social Security," January 1983, p. 10.

[13] Social Security Administration, 1979 Statistical Supplement.

[14] Estimate provided by Social Security Administration.

[15] Ibid.

[16] Social Security Administration. This calculation used the poverty line for an aged individual, which reflects a disabled widow's expenses better than the poverty line for a working-age person.

The CHAIRMAN. Thank you. I think we will hear from the panel, then we will ask questions.

Ms. Forman?

STATEMENT OF MS. MAXINE FORMAN, DIRECTOR, OFFICE OF RESEARCH AND POLICY ANALYSIS, WOMEN'S EQUITY ACTION LEAGUE, WASHINGTON, D.C.

Ms. FORMAN. My name is Maxine Forman. I am sitting in for Dr. Mary Gray who is the National President of the Women's Equity Action League. She conveys her regrets, but she had to rush off for a 3 p.m. meeting on private pensions at the White House, and she just could not get out of it. So I will do my best.

Senator MOYNIHAN. Fool that she was, she thought we would keep to our schedule. [Laughter.]

Ms. FORMAN. Yes.

The solvency of social security is critical to women. Women and children are almost two-thirds of all social security recipients. But few people realize this. They think that the majority of elderly beneficiaries are retired white men who enjoy good health, have other sources of income and a full work-life behind them.

Like the photograph of the elderly white male chemist at work in his lab—a photograph which appears on not one, not two, but on all three volumes of the final report of the White House Conference on Aging—this portrait ignores the problems of those who face limited options throughout their lives because of race or sex. Women are the majority of elderly social security beneficiaries, and they receive the lowest monthly checks. The average benefit for a retired woman worker in April 1982 was $335; spouse got $196, and widows $351.

Women get the lowest benefits because they get the lowest wages and have zeros averaged into earnings records for time spent as homemakers, and are victims of provisions which treat divorced and widowed women inadequately. Reductions for taking benefits early lower these benefits even more.

As low as these benefits are, women depend on them as their sole or main source of income. Low lifetime earnings guarantee that few women can build a nest egg to supplement these meager benefits.

The median annual income for women over age 65 from all sources—earnings, interest, pensions, and social security, combined—is only $4,757, compared to $8,173 for men. It is not surprising that the poverty rate for elderly women is higher than that of the elderly population in general—18.6 percent as compared to 15.3. It is also not surprising that the loss of a husband can push an elderly woman into poverty as the result of lost earnings or pensions.

Over 6 million unmarried women live alone or with unrelated adults, and about half live at or near the poverty level. For minority women, the proportion is much higher. It is no wonder that women comprise 73 percent of supplemental security elderly recipients, a form of welfare for the poorest elderly.

Women have already lost much through social security provisions of the 1981 Budget Act—eliminating the minimum benefit, phasing out the student benefit, and the parents' benefit when the youngest child turns 16, were all changes that hurt women.

It is against this economic scenario that the Women's Equity Action League measures the recommendations of the National Commission on Social Security Reform. Clearly, the Commission could have recommended fundamental structural changes which would have lowered women's benefits even more. If the Commission had made such recommendations, WEAL would adamantly oppose them. But still we think the package could be improved. I would like to comment on some of the recommendations which especially affect women:

In light of their poverty, the most problematic proposal for women is the 6-month COLA freeze. An elderly widow with a monthly benefit of about $375 would keenly feel a loss of $80 over a 6-month period as she struggles to keep up with rising, not frozen, prices.

Also, the Commission's recommendation to increase the social security income disregard for the elderly poor under SSI will not help those who don't get social security or who are not poor enough to qualify for SSI.

So we have severe reservations about the 6-month freeze and would find it acceptable only as an alternative to more severe measures. A better plan might be to suffer a 3-month freeze, and in addition raise the taxable wage base for employers only, so that they would pay social security taxes on more of their payroll.

WEAL supports increasing the tax for the self-employed but suggests a refundable tax credit instead of a business deduction for a portion of the total tax paid. This would help women who are entrepreneurs at the low end of the earnings scale.

WEAL also supports taxing 50 percent of social security benefits by adding it to adjusted gross income, excluding social security, for individuals with income over $20,000. This would not, in general, hurt elderly women, most of whom have very low incomes and most of it from social security. But as it stands, the provision does contain a marriage tax, which WEAL opposes.

WEAL prefers accelerating scheduled payroll tax increases to alternative recommendations to reduce replacement rates or cut benefits in other ways. We say this despite the fact that a tax increase burdens most those who earn less, mostly women who are often the sole supporters of their families. The 1984 refundable tax credit would help, but another credit should be provided with the acceleration of the 1990-portion.

The proposal to cover all new Federal employees would help women. The present civil service retirement system provides inadequate protection to low-paid short-term workers, divorced spouses, and survivors, the majority of whom are women.

WEAL also supports covering employees of nonprofit organizations, because the majority of such workers are women. Even organizations which choose to provide a plan to replace social security rarely could afford one with comparable features. The portability, weighted benefit formula, and inflation-proof benefits, except when COLA's are frozen, are good for elderly women.

And last, the Commission's recommendations on women's concerns are a first step. We support them. But the Commission made no recommendations recognizing marriage as an economic partnership or on the changing roles of women in society. This means that women will continue to have no portable protection based on their contributions in the home and will still earn low benefits as workers, not only because of low wages but also because homemaking will continue to earn zeros in earnings records. Divorced women will continue to be disadvantaged by low benefits that were never meant to support a separate household; married women will continue to pay social security taxes with the knowledge that their retirement benefits may be no greater than what they would get if they had never worked for pay. Recency of work requirements may lock working women out of disability benefits if they leave the work force for homemaking responsibilities.

So things are pretty much the same. Most inequities and inadequacies remain.

What improvements would occur if the Commission's modest recommendations are implemented? The divorced women of retirement age, married at least 10 years, would be able to receive a small spouse benefit, even if her ex-spouse continues to work. This is good, especially for women older than their ex-husbands or whose ex-husbands simply choose to work.

All categories of older widows, including divorced and disabled, would be able to continue getting benefits upon remarriage after a certain age, just as widows over age 60 do under current law.

Disabled widows aged 50 would now be able to receive 71.5 percent of their full benefit instead of 50 percent as under current law. This is good, especially if it applies to disabled widows already on the roles. But considering the fact that disabled widows meet an even stricter test of disability than other disabled individuals, we recommend 100 percent at age 50.

The recommendation to index the widow's benefits by wages instead of prices from the time of her husband's death until she receives it comes at a time when prices have been rising faster than wages. Unless there is a provision to use either prices or wages, whichever produces a higher benefit, this provision may not help all of the people for whom it was intended.

Clearly, a goal for the future should be to provide all women with social security protection in their own right. This would recognize unpaid contributions to a marriage and would allow combining social security protection earned in the home with protection earned in paid employment. At the same time, though, we should not assume that women's roles have been completely transformed, that all women work full-time for all of the years of their life at pay comparable to men. Women are still concentrated in low-paid dead-end jobs and earn about 60 percent of what men earn.

It will be important to make sure that Congress does not pass a quick, cheap, simple solution to the complex issue of adequacy and equity under social security.

In conclusion, I want to reiterate WEAL's concern that the Commission recommended a 6-month COLA freeze, and in addition make it perfectly clear that Women's Equity Action League would vigorously oppose any financing recommendations for the short or long term that would further reduce benefits for recipients, the majority of whom are women already receiving low benefits.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Dr. Mary Gray, delivered by Ms. Forman, follows:]

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TESTIMONY OF THE WOMEN'S EQUITY ACTION LEAGUE
PRESENTED BEFORE THE SENATE COMMITTEE ON FINANCE SUBCOMMITTEE ON SOCIAL SECURITY

SENATOR ARMSTRONG, MEMBERS OF THE COMMITTEE, I AM PLEASED TO BE HERE TODAY REPRESENTING THE VIEWS OF THE WOMEN'S EQUITY ACTION LEAGUE (KNOWN AS WEAL).

FOUNDED IN 1968, WEAL IS A NATIONAL NONPROFIT ORGANIZATION SPECIALIZING IN WOMEN'S ECONOMIC ISSUES THROUGH RESEARCH, EDUCATION PROJECTS, THE SUPPORT OF LITIGATION, AND LEGISLATIVE ADVOCACY. WE COMMEND THE COMMITTEE FOR RECOGNIZING THAT THE TESTIMONY OF WOMEN'S GROUPS IS CRITICAL TO ANY DISCUSSION OF THE SOLVENCY OF SOCIAL SECURITY. AFTER ALL, WOMEN HAVE SO MUCH AT STAKE. WOMEN AND CHILDREN ARE ALMOST TWO-THIRDS OF ALL SOCIAL SECURITY RECIPIENTS.

BUT FEW PEOPLE REALIZE THIS. IN FACT, THEY THINK THAT THE MAJORITY OF ELDERLY SOCIAL SECURITY RECIPIENTS ARE RETIRED WHITE MALES WHO ENJOY GOOD HEALTH, HAVE OTHER SOURCES OF INCOME AND A FULL WORK-LIFE BEHIND THEM. LIKE THE PHOTOGRAPH OF THE ELDERLY WHITE MALE CHEMIST AT WORK IN HIS LAB -- A PHOTOGRAPH WHICH APPEARED ON ALL THREE VOLUMES OF THE

FINAL REPORT OF THE 1981 WHITE HOUSE CONFERENCE ON AGING, THIS PORTRAIT IGNORES THE PROBLEMS OF THOSE WHO FACE LIMITED OPTIONS THROUGHOUT THEIR LIVES BECAUSE OF SEX OR RACE. EVEN A 1981 NEW YORK TIMES ARTICLE,WHOSE PURPOSE WAS TO SHOW THAT THE ELDERLY ARE PERCEIVED TO BE MORE DESPERATE THAN THEY REALLY ARE, ADMITTED AS AN ASIDE IN THE LAST PARAGRAPH THAT WITHIN THE OVER AGE 65 POPULATION, THERE ARE FOUR GROUPS WHO REPORT LIVING A MISERABLE, DISMAL EXISTENCE: BLACKS, HISPANICS, THOSE WITH INCOMES UNDER $10,000 -- AND WOMEN.* EVEN EXCLUDING OVERLAP WITH THE FIRST THREE CATEGORIES, WOMEN ARE 60 PERCENT OF THE ELDERLY POPULATION AND 60 PERCENT OF ELDERLY SOCIAL SECURITY BENEFICIARIES.

WOMEN AS BENEFICIARIES

WOMEN RECEIVE SOCIAL SECURITY BENEFITS AS WORKERS, SPOUSES AND SURVIVORS UNDER THE SOCIAL SECURITY SYSTEM. IN ALL THREE CATEGORIES, THEIR BENEFITS ARE VERY LOW. IN APRIL 1982, THE AVERAGE BENEFIT FOR A RETIRED WOMAN WORKER WAS $335 AS COMPARED TO $432 FOR MEN; SPOUSES AVERAGE $196, AND WIDOWS RECEIVED $351. IN GENERAL, WOMEN'S LOW SOCIAL SECURITY BENEFITS CAN BE ATTRIBUTED TO LOW WAGES -- THE EFFECTS OF A LIFETIME OF DISCRIMINATION IN EDUCATION AND EMPLOYMENT, POLICIES THAT AVERAGE ZEROES INTO EARNINGS RECORDS FOR TIME SPENT OUT OF THE PAID WORK FORCE IN HOMEMAKING RESPONSIBILITIES, AND PROVISIONS THAT TREAT DIVORCED WOMEN AND ELDERLY WIDOWS INADEQUATELY. ACTUARIAL REDUCTIONS FOR TAKING BENEFITS BEFORE AGE 65 ALSO PLAY A PART IN LOWERING WOMEN'S MONTHLY CHECKS.

* Binstock, Robert H. "Reframing the Agenda of Policies on the Aging"; Proceedings of a Symposium on Income Maintenance; Washington, D.C.: May 17, 1982; p. 17, citing Warren Weaver Jr., "Pollster Detects 'Myths' on Problems of Aged," The New York Times (November 19, 1981), p. A18.

AS LOW AS WOMEN'S BENEFITS ARE, THEY ARE OFTEN THE PRIMARY OR SOLE SOURCE OF INCOME FOR THEM. FOR MOST WOMEN, A HISTORY OF LOW OR NO EARNINGS WORKS AGAINST BUILDING A NEST EGG TO SUPPLEMENT MEAGER SOCIAL SECURITY BENEFITS. IN ADDITION, FEW WOMEN RECEIVE PENSIONS, EITHER AS WORKERS OR AS SURVIVORS -- AND WHEN THEY DO, THE AMOUNTS ARE SMALL. ONLY 10 PERCENT OF WOMEN AGE 65 AND OLDER RECEIVED BENEFITS FROM PRIVATE PENSION PLANS IN 1980, AS COMPARED TO 27 PERCENT OF MEN OVER AGE 65. WOMEN RECEIVED A MEDIAN INCOME OF ONLY $1,400 FROM PRIVATE PENSION PLANS BASED EITHER ON THEIR OWN WORK EXPERIENCE OR AS SURVIVORS OF WORKING SPOUSES. FOR MEN, THE MEDIAN INCOME WAS $3,000. THE MEDIAN ANNUAL INCOME FOR ALL WOMEN OVER AGE 65 FROM ALL SOURCES (I.E. EARNINGS, INTEREST FROM ASSETS, PENSIONS AND SOCIAL SECURITY) WAS ONLY $4,757 AS COMPARED TO $8,173 FOR MEN.

POVERTY AND ELDERLY WOMEN

IT IS NOT SURPRISING THEN THAT THE POVERTY RATE FOR ELDERLY WOMEN IS HIGHER THAN FOR THE OVER AGE 65 POPULATION IN GENERAL - 18.6 PERCENT AS COMPARED TO 15.3 PERCENT. IT IS ALSO NOT SURPRISING THAT THE LOSS OF A HUSBAND CAN SEND AN ELDERLY WOMAN MORE DEEPLY INTO POVERTY BECAUSE THE EVENT OFTEN SIGNALS THE END OF EARNINGS OR PENSIONS. ONLY 22 PERCENT OF AGED WIDOWS RECEIVE RETIREMENT BENEFITS OTHER THAN SOCIAL SECURITY. ONLY 14 PERCENT OF UNMARRIED AGED WOMEN HAVE EARNINGS OF THEIR OWN, AND ONLY 28 PERCENT OF THOSE WITH EARNINGS WORK FULL-TIME.* OF THE 16 MILLION

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* Sherburne, Jane C. "Women and Social Security: Seizing the Moment for Change," The Georgetown Law Journal; Washington, D.C.: Volume 70 Number 6, August 1982; p. 1576, citing Social Security and the Changing Roles of Men and Women: HEW Report, 1979, p. 173.

WOMEN OVER AGE 65, ONLY 6.1 MILLION (38 PERCENT) ARE MARRIED; 8.1 MILLION ARE WIDOWED; 900,600 WERE NEVER MARRIED; AND 695,200 ARE SEPARATED OR DIVORCED. OF THESE 9.7 MILLION UNMARRIED WOMEN OVER THE AGE OF 65, ABOUT 6.7 MILLION (OR 42 PERCENT OF ALL WOMEN OVER AGE 65) LIVE ALONE OR WITH UNRELATED ADULTS. (ELDERLY WOMEN, WHO HAVE AN 18 YEAR LIFE EXPECTANCY AT AGE 65, SELDOM REMARRY AND OFTEN REMAIN ALONE FOR THE REMAINDER OF THEIR LIVES.) OVER 2 MILLION OF THESE ELDERLY WOMEN ARE OFFICIALLY "POOR" (INCOME BELOW $4,359). THEY COMPRISE 85 PERCENT OF ALL ELDERLY PEOPLE LIVING ALONE BELOW THE POVERTY LINE. USING 125 PERCENT OF THE POVERTY LEVEL (INCOME BELOW $5,449), THE FIGURE FOR ELDERLY WOMEN LIVING ALONE AT OR NEAR POVERTY SOARS FROM ABOUT 31 PERCENT TO 50 PERCENT. FOR ELDERLY MINORITY WOMEN LIVING ALONE, THE STATISTICS ARE EVEN HIGHER. IT IS NOT SURPRISING THEN THAT WOMEN COMPRISE 73 PERCENT OF ELDERLY RECIPIENTS OF SUPPLEMENTARY SECURITY INCOME (SSI), A FORM OF WELFARE FOR THE POOREST OF THE ELDERLY, DISABLED AND BLIND.

RECENT CHANGES IN SOCIAL SECURITY WHICH HAVE HURT WOMEN

WOMEN HAVE ALREADY LOST MUCH THROUGH CHANGES IN SOCIAL SECURITY IN THE 1981 BUDGET ACT. NOW, A WIDOW (WHO IS NOT DISABLED) CANNOT RECEIVE BENEFITS BEFORE AGE 60 UNLESS SHE IS CARING FOR A CHILD UNDER AGE 16 (RATHER THAN PREVIOUSLY, AGE 18). IN ADDITION, SOCIAL SECURITY DEPENDENTS BENEFITS TO CHILDREN OVER 18 OF RETIRED, DECEASED AND DISABLED WORKERS ARE BEING GRADUALLY REDUCED WITH TOTAL ELIMINATION BY SEPTEMBER 1985. WIDOWED MOTHERS, MOST BETWEEN THE AGES OF 40 AND 60, WILL NOW HAVE TO DIP INTO THEIR OWN RESOURCES TO EDUCATE THEIR COLLEGE-AGE CHILDREN. ESPECIALLY BURDENED WILL BE THE HIGH PROPORTION OF OLDER BLACK WOMEN

WHO RAISE AND EDUCATE THEIR GRANDCHILDREN. PERHAPS THE MOST CONTROVERSIAL CHANGE WAS THE ELIMINATION OF THE MINIMUM SOCIAL SECURITY BENEFIT FOR FUTURE RECIPIENTS. WORKERS WHO WORKED THE REQUIRED NUMBER OF YEARS BUT IN SPORADIC AND OFTEN LOW PAID WORK WILL GET BENEFITS BASED SOLELY ON THEIR WAGE RECORD IN COVERED EMPLOYMENT -- NO MATTER HOW LOW. THE ADMINISTRATION PORTRAYED FUTURE RECIPIENTS OF THE MINIMUM BENEFIT AS GOVERNMENT RETIREES WITH HIGH PENSIONS WHO WERE DOUBLE-DIPPING. BUT THE OVERWHELMING MAJORITY ARE WOMEN, HALF OF WHOM MAY OR MAY NOT RECEIVE A SOCIAL SECURITY SPOUSE BENEFIT TO OFFSET THEIR LOW MINIMUM BENEFIT AS A WORKER -- OR WOMEN WHO HAVE TAKEN A VOW OF POVERTY. EXCEPT FOR THE LATTER GROUP, THESE WOMEN COULD LOSE AN AVERAGE OF $30 A MONTH; THEY MAY BE ADDED TO THE SSI ROLLS, BUT ONLY IF THEY APPLY AND PASS THE INCOME AND ASSET TEST.

THE COMMISSION'S RECOMMENDATIONS

FINANCING CONCERNS

IT IS AGAINST THE ECONOMIC SCENARIO I HAVE DESCRIBED THAT WEAL MEASURES THE RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM. IN COMMENTING ON THE COMMISSION'S RECOMMENDATIONS, IT IS EASY TO VACILLATE BETWEEN VIEWING THEM AS A GLASS HALF-EMPTY OR A GLASS HALF-FULL. CLEARLY, THE COMMISSION COULD HAVE RECOMMENDED FUNDAMENTAL CHANGES WHICH WOULD FURTHER REDUCE WOMEN'S ALREADY LOW BENEFITS.

THE PROPOSALS COULD HAVE REDUCED BENEFITS BY TAMPERING WITH THE WEIGHTED FORMULA WHICH HELPS LOW EARNERS, OR WORSE, BY ELIMINATING THE WEIGHTED FORMULA. PROPOSALS COULD HAVE INCREASED THE NUMBER OF COMPUTATION YEARS, FORCING WOMEN TO HAVE EVEN MORE ZERO YEARS AVERAGED INTO THEIR BENEFIT AMOUNTS. THEY COULD HAVE DECREASED THE NUMBER OF YEARS IN THE

"RECENCY OF WORK" REQUIREMENT, MAKING IT EVEN MORE DIFFICULT FOR WOMEN WORKERS TO QUALIFY FOR DISABILITY IF THEY TAKE TIME OUT TO CARE FOR CHILDREN OR AN INVALID. THEY COULD HAVE INCREASED SOCIAL SECURITY TAXES IN ADDITION TO ACCELERATING THEM -- AND ALLOWED NO REFUNDABLE TAX-CREDIT. THIS WOULD BE ESPECIALLY BURDENSOME TO WOMEN, WHO ARE LOW EARNERS AND THEREFORE NEED EVERY DOLLAR THEY EARN. THEY COULD HAVE DICTATED EVEN HARSHER COLA MODIFICATIONS WHICH WOULD HAVE PLUNGED MILLIONS OF ADDITIONAL ELDERLY WOMEN INTO POVERTY. THE COMMISSION DID NONE OF THESE THINGS, AND WEAL WOULD HAVE ADAMANTLY OPPOSED ANY OF THEM. INSTEAD THE COMMISSION'S RECOMMENDATIONS ATTEMPT TO PRODUCE A COMPROMISE THAT DIVIDES THE FINANCING BURDEN SOMEWHAT FAIRLY BETWEEN VARIOUS CATEGORIES OF WORKERS AND BENEFICIARIES. TO A GREAT EXTENT THIS WAS ACCOMPLISHED. I WILL NOT COMMENT ON EVERY ONE OF THE COMMISSION'S RECOMMENDATIONS, BUT ONLY THOSE WHICH ESPECIALLY IMPACT WOMEN UNDER THE SYSTEM.

SIX MONTH COLA FREEZE

IN LIGHT OF THE ECONOMIC SCENARIO DISCUSSED EARLIER, THE MOST PROBLEMATIC RECOMMENDATION FOR ELDERLY WOMEN IS THE PROPOSED SIX MONTH COLA FREEZE. ONE COULD ARGUE ALMOST CONVINCINGLY THAT IF A SIX MONTH FREEZE WERE NECESSARY, NOW IS THE BEST TIME TO IMPLEMENT IT SINCE THE 1982 INCREASE IN CONSUMER PRICES WAS ONLY 3.9 PERCENT. BUT EVEN AT THIS RATE -- AND THERE IS NO SURE WAY TO KNOW IT WILL CONTINUE -- AN ELDERLY WIDOW WHO RECEIVES A MONTHLY SOCIAL SECURITY BENEFIT OF $375 WOULD KEENLY FEEL A $80 LOSS OVER THE SIX MONTH PERIOD AS SHE ENCOUNTERS RISING - NOT FROZEN - COSTS OF HEALTH CARE, FUEL AND OTHER NECESSITIES. FURTHER, IF THE PRESIDENT'S 1984 BUDGET CUTS ARE IMPLEMENTED, INCREASED MEDICARE AND MEDICAID COSTS, COUPLED WITH FURTHER REDUCTIONS FOR LOW INCOME ENERGY

ASSISTANCE AND CUTS IN FOOD STAMPS, WILL COMBINE TO MAKE SURVIVAL A STRUGGLE FOR LOW INCOME BENEFICIARIES, MOST OF WHOM ARE WOMEN. WHILE IT IS ADMIRABLE OF THE COMMISSION TO CONSIDER THE "TRULY NEEDY" AND TO INCREASE BY $30.00 THE SOCIAL SECURITY INCOME DISREGARD FOR THE ELDERLY POOR WHO RECEIVE SSI, THIS INCREASE SHOULD BE EXTENDED TO OTHER UNEARNED INCOME AS WELL. BUT NEITHER INCREASE WOULD HELP PEOPLE WHO ARE POOR BUT NOT QUITE POOR ENOUGH TO QUALIFY FOR SSI. FOR INDIVIDUALS WHO DO NOT KNOW THAT THEY ARE ELIGIBLE FOR THIS SUPPLEMENT FOR THE POOREST AMONG THE DISABLED, BLIND AND ELDERLY, IT IS ESPECIALLY IMPORTANT THAT THE SOCIAL SECURITY ADMINISTRATION SEND SIMPLY WORDED NOTICES TO BENEFICIARIES, TRANSLATED INTO AS MANY LANGUAGES AS POSSIBLE, ALERTING THEM THAT THEY MAY BE ELIGIBLE FOR SSI AND INSTRUCTING THEM ON HOW TO APPLY. IN ADDITION THE SOCIAL SECURITY ADMINSTRATION SHOULD FOLLOW UP THESE NOTICES WITH PERSONAL OUTREACH TO HELP THESE INDIVIDUALS THROUGH THE PROCESS.

STILL, WE FEEL THAT IF A COLA FREEZE MUST COME, A MODERATE ALTERNATIVE, SAY A THREE MONTH FREEZE, WOULD BE SUFFICIENT. ACCORDING TO THE COMMISSION'S GREEN OPTION BOOK, THE THREE MONTH PROVISION WOULD STILL SAVE THE SYSTEM OVER $30 BILLION BY 1989. ANOTHER OPTION MIGHT BE TO TAP BIG BUSINESS FOR A BIT MORE OF THEIR SHARE IN THE COMPROMISE PACKAGE. EMPLOYERS COULD CONTRIBUTE SOCIAL SECURITY TAXES ON THE BASIS OF THEIR TOTAL PAYROLL, NOT JUST ON WAGES UP TO $35,700. IN 1982 ONLY 11 PERCENT OF ALL EARNINGS IN COVERED EMPLOYMENT WAS ABOVE THE WAGE LIMITATION. COINCIDENTALLY, THIS PROPOSAL WOULD ADD ABOUT $40 BILLION INTO THE SYSTEM -- THE SAME AMOUNT THAT WOULD BE REALIZED THROUGH THE SIX MONTH COLA FREEZE -- AND WOULD ALSO REDUCE SUBSTANTIALLY THE SOCIAL SECURITY DEFICIT ESTIMATES TO BEGIN AROUND 2015. FEW SMALL BUSINESSES PAY SALARIES AS HIGH AS THE CURRENT LIMIT, BUT LARGE CORPORATIONS, WHICH WOULD PAY MORE, COULD MORE EASILY BEAR THE

TAX INCREASES THAN THE ELDERLY POOR COULD BEAR THE LOSS OF THEIR ONLY SAFEGUARD AGAINST RISING PRICES.

INCREASING THE TAX ON THE SELF-EMPLOYED FROM 9.35 PERCENT TO THE COMBINED EMPLOYER-EMPLOYEE RATE OF 13.4 PERCENT

WEAL SUPPORTS THIS CONCEPT BUT SUGGESTS A REFUNDABLE TAX CREDIT FOR 50 PERCENT OF THE TOTAL TAX PAID INSTEAD OF A BUSINESS DEDUCTION. THIS WOULD HELP ENTREPRENEURS AT THE LOW END OF THE EARNINGS SCALE, MOST OF WHOM ARE WOMEN. WOMEN COMPRISE ABOUT ONE-THIRD OF THE SEVEN MILLION NON-AGRICULTURAL SELF-EMPLOYED, SO THEY WOULD NOT BE DISPROPORTIONATELY AFFECTED BASED ON THEIR NUMBERS. IN TERMS OF INCOME AND TAX BRACKET, HOWEVER, THEY WOULD BE. ACCORDING TO THE CENSUS BUREAU, THE 1981 MEDIAN EARNINGS FOR SELF-EMPLOYMENT FOR WOMEN WAS ABOUT $2,600; FOR MEN IT WAS $10,500. UNDER THE TAX TREATMENT PROPOSED, HIGHER INCOME PERSONS COULD DEDUCT MORE THAN THOSE IN LOWER TAX BRACKETS AND HENCE WOULD HAVE A SMALLER NET TAX INCREASE. THE TAX CREDIT WOULD ESPECIALLY BENEFIT PEOPLE WHO ARE NOT REALIZING HEFTY PROFITS IN THEIR SMALL BUSINESSES SUCH AS CATERING, TYPING AND CHILDCARE SERVICES.

TAXATION OF SOCIAL SECURITY BENEFITS

THE COMMISSION'S RECOMMENDATION IS TO TAX FIFTY PERCENT OF SOCIAL SECURITY BENEFITS BY ADDING IT TO ADJUSTED GROSS INCOME (EXCLUDING SOCIAL SECURITY BENEFITS) FOR INDIVIDUALS WITH INCOME OVER $20,000 AND COUPLES WITH INCOME OVER $25,000. THIS WILL NOT IN GENERAL HURT ELDERLY WOMEN. MOST UNMARRIED ELDERLY WOMEN DEPEND ON SOCIAL SECURITY AS A PRIMARY SOURCE OF INCOME SUPPLEMENTED BY LITTLE OR NO PENSION BENEFITS OR SAVINGS. UNMARRIED ELDERLY WOMEN LIVING ALONE HAVE A MEDIAN ANNUAL INCOME OF UNDER $5,000, WITH FIFTY PERCENT OF SUCH WOMEN LIVING AT OR NEAR POVERTY.

ABOUT SIX PERCENT OF ALL UNRELATED INDIVIDUALS OVER AGE 65 HAVE ANNUAL INCOMES OF OVER $20,000 -- INCLUDING SOCIAL SECURITY BENEFITS. ABOUT ONE PERCENT OF SINGLE ELDERLY WOMEN HAVE EARNINGS OVER $25,000. WHILE THIS CENSUS BUREAU DATA EXCLUDES INCOME OF SINGLE INDIVIDUALS BETWEEN THE AGES OF 62 and 64, THERE IS NO REASON TO BELIEVE THAT THE LOW INCOME IN THIS AGE GROUP, MOST OF WHOM ARE WOMEN, WILL BE AFFECTED NEGATIVELY BY THE RECOMMENDATION TO TAX BENEFITS.

ACCELERATING ALREADY SCHEDULED PAYROLL TAX INCREASES

WEAL PREFERS THIS RECOMMENDATION TO ALTERNATIVE RECOMMENDATIONS OF REDUCING REPLACEMENT RATES OR CUTTING BENEFITS IN OTHER WAYS. YET THIS WAS NOT AN EASY DECISION TO MAKE, EVEN WITH CONSIDERATION OF THE REFUNDABLE INCOME TAX CREDIT PROVIDED IN 1984. LOW EARNERS, THE MAJORITY OF WHOM ARE WOMEN, PAY TAXES ON ALL THEIR INCOME,BUT THE HIGHEST EARNERS, ABOUT EIGHT PERCENT OF ALL EARNERS AND MOSTLY MEN, DO NOT. A WOMAN EARNING $10,000 ANNUALLY IN 1984 WILL PAY SEVEN PERCENT ON HER ENTIRE INCOME WHILE A MAN (OR LESS LIKELY, A WOMAN) EARNING OVER $35,700 WILL PAY THE SAME PERCENT ON HIS INCOME ONLY UP TO THE $35,700 LIMIT. DESPITE THE WEIGHTED BENEFIT FORMULA FAVORING LOW EARNERS, THE WAGE LIMITATION ON CONTRIBUTIONS SEEMS UNFAIR. THIS IS ESPECIALLY TRUE BECAUSE THE LOW EARNER, POSSIBLY THE SOLE SUPPORT OF THE FAMILY, "LOSES" MORE MONEY TO TAXES EACH MONTH -- MONEY SHE COULD HAVE USED FOR FOOD, CLOTHES, AND OTHER NECESSITIES FOR HER FAMILY. THE REFUNDABLE TAX CREDIT IN 1984 WILL HELP, BUT ANOTHER ONE SHOULD BE PROVIDED IN 1988 WITH THE ADDITION OF THE PORTION OF THE 1990 TAX RATE.

IN ADDITION, MORE AND MORE MARRIED WOMEN ARE REALIZING THAT THE MONTHLY TAXES THEY CURRENTLY PAY MAY BUY THEM A RETIREMENT BENEFIT NO GREATER

THAN WHAT THEY WOULD HAVE RECEIVED AS A SPOUSE WHO HAD NEVER PAID TAXES AS A WORKER. AND WHILE THESE TAXES DURING THEIR WORK LIVES ARE SUPPOSED TO BUY DISABILITY COVERAGE FOR THEMSELVES AND SURVIVOR BENEFITS FOR THEIR FAMILIES, MARRIED WOMEN WHO TAKE TIME OUT FOR HOMEMAKING RESPONSIBILITIES SOMETIMES DISCOVER THAT THEY DO NOT QUALIFY FOR DISABILITY COVERAGE OR SURVIVOR PROTECTION BECAUSE OF "RECENCY OF WORK" REQUIREMENTS WHICH WERE NOT MET AS A RESULT OF TAKING TIME OUT. DESPITE OUR RESERVATIONS BASED ON HOW CURRENT SOCIAL SECURITY TAXES IMPACT WOMEN, WE ACCEPT THE COMMISSION'S RECOMMENDATION TO GRADUALLY ACCELERATE ALREADY SCHEDULED PAYROLL TAX INCREASES - WITH THE REFUNDABLE TAX CREDITS.

MANDATORY SOCIAL SECURITY COVERAGE FOR NEWLY HIRED EMPLOYEES OF THE FEDERAL GOVERNMENT

THE PROPOSAL TO EXTEND MANDATORY SOCIAL SECURITY COVERAGE TO ALL CIVILIAN EMPLOYEES WOULD BENEFIT WOMEN. THE PRESENT CIVIL SERVICE RETIREMENT SYSTEM (CSR) PROVIDES INADEQUATE PROTECTION FOR WORKER'S SPOUSES AND SURVIVORS, THE MAJORITY OF WHOM ARE WOMEN. FOR EXAMPLE, THERE ARE NO AUTOMATIC PROVISIONS FOR SPOUSE'S BENEFITS UNDER THE CSR SYSTEM AND IF SPOUSE BENEFITS ARE ELECTED, THE RETIREE'S BENEFIT IS REDUCED. THE SOCIAL SECURITY SYSTEM INCLUDES BENEFITS FOR SPOUSES WITH NO REDUCTION IN THE WORKER'S BENEFIT. CIVIL SERVICE SURVIVOR BENEFITS, WHICH ARE ALSO OPTIONAL, ONLY PROVIDE THE SURVIVING SPOUSE WITH 55 PERCENT OF THE RETIREE'S ANNUITY. SURVIVING SPOUSES AT AGE 65 ARE ELIGIBLE FOR THE RETIREE'S FULL SOCIAL SECURITY BENEFIT. SOCIAL SECURITY MEDICARE BENEFITS ARE PROVIDED TO AGED SPOUSES REGARDLESS OF DIVORCE OR WIDOW(ER)HOOD, BUT THE CIVIL SERVICE RETIREMENT PLAN REQUIRES THE SURVIVING SPOUSE TO PAY LARGE PREMIUMS FOR CONTINUED MEDICAL COVERAGE.

UNDER SOCIAL SECURITY, DIVORCED WOMEN ARE GUARANTEED SPOUSE AND SURVIVOR BENEFITS IF THE MARRIAGE LASTED TEN OR MORE YEARS, BUT DIVORCED SPOUSES OF CIVIL SERVICE WORKERS LOSE THEIR SURVIVOR BENEFITS AND DO NOT RETAIN THEIR ANNUITY AS A SPOUSE EXCEPT UNDER COURT ORDER. DISABILITY COVERAGE CEASES FOR FEDERAL EMPLOYEES IMMEDIATELY AFTER LEAVING THEIR JOBS IN CONTRAST TO THE "RECENCY OF WORK" TEST UNDER THE SOCIAL SECURITY SYSTEM. ALSO, DISABILITY BENEFITS ARE RELATIVELY LOW FOR FEDERAL EMPLOYEES IN LOW PAYING JOBS WHO HAVE LESS THAN 20 YEARS INVESTED IN CIVIL SERVICE EMPLOYMENT. THE MAJORITY OF SUCH EMPLOYEES ARE WOMEN. IN ADDITION, UNDER CSR THERE IS NO DEPENDENT ALLOWANCE FOR DISABLED WORKERS UNLESS THE DISABILITY IS WORK-INCURRED, BUT UNDER SOCIAL SECURITY, FAMILIES OF DISABLED WORKERS ARE ELIGIBLE FOR BENEFITS REGARDLESS OF HOW THE DISABILITY CAME ABOUT.

WHILE THE COMMISSION IS RECOMMENDING LIMITED TAXATION OF SOCIAL SECURITY BENEFITS, AT THE PRESENT TIME SOCIAL SECURITY BENEFITS ARE NOT TAXED. -RETIREMENT BENEFITS FROM THE CIVIL SERVICE SYSTEM ARE TAXED AFTER THE AMOUNT CONTRIBUTED BY THE RETIREE IS EXHAUSTED, USUALLY A PERIOD OF ABOUT EIGHTEEN MONTHS.

THE CIVIL SERVICE RETIREMENT SYSTEM DOES CONTAIN SOME ADVANTAGES. EARLY RETIREMENT IS POSSIBLE FOR FEDERAL EMPLOYEES AFTER A SET NUMBER OF YEARS OF SERVICE, WHERE UNDER THE SOCIAL SECURITY PROGRAM EARLY RETIREMENT IS PENALIZED BY REDUCED BENEFITS. IN ADDITION, HIGH SALARIED EMPLOYEES ARE LIKELY TO RECEIVE LARGER BENEFITS FROM THE CSR PLAN THAN THEY WOULD FROM SOCIAL SECURITY. IT MUST BE REMEMBERED, HOWEVER, THAT THE CSR SYSTEM WAS ORIGINALLY DESIGNED AS A PENSION PROGRAM TO PROVIDE DEFERRED COMPENSATION TO FEDERAL EMPLOYEES. SOCIAL SECURITY, ON THE OTHER HAND, PROVIDES WORKERS AND THEIR FAMILIES WITH A BASIC LEVEL OF SUBSISTENCE IN THE EVENT OF RETIREMENT, DEATH OR DISABILITY.

THE INCORPORATION OF A UNIVERSAL SOCIAL SECURITY SYSTEM WOULD BE BENEFICIAL. THE ADDITIONAL CASH FLOW FROM CIVIL SERVICE WORKERS' SOCIAL SECURITY TAXES WOULD STRENGTHEN THE SOCIAL SECURITY SYSTEM. IN ADDITION, FEDERAL EMPLOYEES' SPOUSES AND SURVIVORS WOULD BE INSURED SOME FINANCIAL PROTECTION IN THEIR OLDER YEARS.

EXTENSION OF SOCIAL SECURITY COVERAGE TO ALL EMPLOYEES OF NONPROFIT ORGANIZATIONS

WEAL SUPPORTS FULLY THE RECOMMENDATION TO MANDATE SOCIAL SECURITY COVERAGE TO NONPROFIT ORGANIZATIONS. WEAL EMPLOYEES ARE PART OF THE 85 PERCENT OF WORKERS ALREADY COVERED, AND WE FEEL IT IS CRITICAL TO EXTEND COVERAGE TO THE OTHER 15 PERCENT. WOMEN ARE OVER HALF OF THE EMPLOYEES IN NONPROFIT MEMBERSHIP ORGANIZATIONS, MUSEUMS, GALLERIES AND ZOOS; ABOUT 80 PERCENT OF LIBRARY EMPLOYEES, 70 PERCENT OF WORKERS IN RELIGIOUS ORGANIZATIONS AND OVER THREE-FOURTHS OF EMPLOYEES IN HOSPITALS. UNDER CURRENT LAW, EMPLOYERS CAN PROVIDE NO SOCIAL SECURITY AND OFFER NOTHING IN ITS PLACE. EVEN IF A NONPROFIT ORGANIZATION CHOOSES TO PROVIDE A PRIVATE PLAN TO EMPLOYEES, WOMEN'S WORK PATTERNS DO NOT FIT EASILY INTO PRIVATE PENSION PLAN RULES. LOW WAGES, LOW STATUS AND SHORT TENURE ALL PERPETUATE THE EXCLUSION OF WOMEN FROM PRIVATE PENSION PLAN PARTICIPATION. THE FOLLOWING ARE SELECTED EXAMPLES OF ERISA PROVISIONS THAT SERIOUSLY AFFECT WOMEN'S PRIVATE PENSION RIGHTS.

- MOST PLANS REQUIRE THAT WORKERS STAY WITH THE SAME EMPLOYER FOR TEN YEARS BEFORE THEY EARN A RIGHT TO A PENSION. IN MOST INSTANCES, ACCRUED BENEFITS UP TO THE TEN-YEAR MARK ARE FORFEITED UPON RESIGNATION.

- ERISA DOES NOT REQUIRE EMPLOYERS TO COVER WORKERS UNDER AGE 25 (UNDER AGE 30 IN NONPROFIT EDUCATIONAL INSTITUTIONS).
- ERISA ALLOWS THE ELIMINATION OF YEARS OF SERVICE BEFORE AGE 22 IN THE COMPUTATION OF PENSION CREDITS.
- ERISA DOES REQUIRE COVERAGE FOR PART-TIME WORKERS WITH 1,000 HOURS OF ANNUAL SERVICE. MANY PART-TIME WORKERS FALL SLIGHTLY SHORT OF THIS LIMIT.
- ERISA ESTABLISHED THE PENSION BENEFIT GUARANTY CORPORATION WHICH INSURES CONTINUED PENSION BENEFITS WHEN A PLAN IS TERMINATED. NOT ALL PLANS ARE COVERED -- PROFESSIONAL SERVICE CORPORATIONS WITH FEWER THAN 26 EMPLOYEES ARE EXCLUDED FROM THIS PROTECTION.

SOCIAL SECURITY'S PORTABILITY, WEIGHTED BENEFIT FORMULA AND INFLATION PROOF BENEFITS (EXCEPT WHEN COLAS ARE FROZEN) ARE BETTER THAN WHAT PRIVATE PENSION PLANS OFFER WOMEN.

PROVISIONS WHICH MAINLY AFFECT WOMEN

THE COMMISSION'S RECOMMENDATIONS PROPOSE SMALL, LOW-COST CHANGES THAT WOULD IMPROVE THE STATUS OF SOME WOMEN UNDER THE SOCIAL SECURITY SYSTEM. NO COMPREHENSIVE CHANGES WERE SUGGESTED TO RECOGNIZE MARRIAGE AS A PARTNERSHIP OR TO REFLECT THE CHANGING ROLES OF WOMEN IN SOCIETY. WOMEN WILL CONTINUE TO HAVE NO SOCIAL SECURITY CREDITS BASED ON CONTRIBUTION IN THE HOME. WOMEN WILL STILL EARN LOW BENEFITS AS WORKERS NOT ONLY BECAUSE THEY EARN LOW WAGES BUT BECAUSE YEARS SPENT IN HOMEMAKING RESPONSIBILITIES WILL CONTINUE TO BE AVERAGED AS ZEROES INTO THE BENEFIT

COMPUTATIONS. WOMEN WILL CONTINUE TO GET LOW SPOUSE BENEFITS BECAUSE THE MAXIMUM SPOUSE BENEFIT IS ONLY FIFTY PERCENT OF A HUSBAND'S BENEFIT -- ONE-THIRD OF THE COUPLE'S COMBINED AMOUNT. DIVORCED WOMEN, INCREASING IN NUMBER, WILL CONTINUE TO STRUGGLE TO SURVIVE ON THIS SPOUSE RETIREMENT BENEFIT -- A BENEFIT NEVER MEANT TO SUPPORT A SINGLE PERSON IN A SEPARATE HOUSEHOLD. (IF SHE WAS MARRIED FOR FEWER THAN TEN YEARS, SHE GETS NO SPOUSE BENEFIT.) MARRIED WOMEN WILL CONTINUE TO PAY SOCIAL SECURITY TAXES WITH THE KNOWLEDGE THAT THESE TAXES MAY BUY THEM A BENEFIT NO GREATER THAN WHAT THEY WOULD RECEIVE IF THEY NEVER LEFT HOME TO WORK FOR PAY. ONE-EARNER COUPLES MAY STILL GET A HIGHER BENEFIT THAN TWO-EARNER COUPLES WITH THE SAME LIFETIME EARNINGS. "RECENCY OF WORK" REQUIREMENTS STILL MAY LOCK WORKING WOMEN OUT OF DISABILITY BENEFITS OR SURVIVOR PROTECTION IF THEY LEAVE THE WORKFORCE FOR HOMEMAKING RESPONSIBILITIES. DISABILITY PROTECTION FOR HOMEMAKERS IS STILL NOT A REALITY EVEN THOUGH THEIR SERVICES ARE COSTLY TO REPLACE. DISABLED WIDOWS MUST STILL WAIT UNTIL AGE FIFTY TO GET BENEFITS. A NON-DISABLED WIDOW STILL CANNOT GET BENEFITS UNTIL SHE IS SIXTY YEARS OLD, UNLESS SHE HAS A CHILD UNDER SIXTEEN YEARS OF AGE IN HER CARE. THIS MEANS THAT SOME WIDOWS, WITHOUT EARNING SKILLS, CAN GET NEITHER WELFARE NOR SOCIAL SECURITY, YET MUST SURVIVE.

SO THINGS ARE PRETTY MUCH THE SAME. THE POVERTY OF ELDERLY WOMEN DESCRIBED EARLIER IN THIS TESTIMONY IS INEXTRICABLY LINKED TO THE SYSTEM IN EXISTENCE BEFORE THE COMMISSION'S DELIBERATIONS -- AND IT WILL CONTINUE. WHAT IMPROVEMENTS WILL COME FROM THE COMMISSION'S MODEST PROPOSALS IF THEY ARE IMPLEMENTED?

- THE DIVORCED WOMAN MENTIONED EARLIER WOULD NOW BE ABLE TO GET HER SMALL SPOUSE BENEFIT AT RETIREMENT AGE EVEN IF HER HUSBAND HAS NOT YET RETIRED. THIS WILL HELP DIVORCED WOMEN WHO ARE OLDER THAN THEIR EX-HUSBANDS OR WHOSE EX-HUSBANDS CONTINUE WORKING. THE TEN YEAR MARRIAGE REQUIREMENT STILL REMAINS, EVEN THOUGH THE GREAT MAJORITY OF DIVORCES TAKE PLACE AFTER FEWER THAN TEN YEARS OF MARRIAGE.
- UNDER CURRENT LAW WIDOWS OVER AGE 60 WILL NOT LOSE THEIR BENEFITS IF THEY REMARRY. THIS PROVISION WOULD NOW APPLY TO DISABLED WIDOW(ER)S AGED 50-59, DISABLED DIVORCED WIDOW(ER)S AGED 50-59, AND DIVORCED WIDOW(ER)S AGED 60 AND OVER. THE REMARRIAGE RATE FOR THESE WOMEN IS SO LOW THAT THIS PROPOSAL WOULD COST THE SYSTEM LITTLE AND STILL HELP SOME WOMEN.
- DISABLED WIDOW(ER)S AGED 50-59 WOULD NOW RECEIVE 71.5 PERCENT OF THEIR AGE 65 BENEFIT, INSTEAD OF ONLY 50 PERCENT OF THAT FULL BENEFIT AS UNDER CURRENT LAW. THIS BENEFIT CHANGE IS ESPECIALLY HELPFUL BECAUSE IT APPLIES TO ALL WOMEN IN THIS CATEGORY -- EVEN THOSE ALREADY ON THE ROLLS. A MORE HELPFUL OPTION FOR THESE DISABLED WIDOWS WOULD HAVE BEEN TO RAISE THE BENEFIT TO 100 PERCENT.
- UNDER CURRENT LAW, A WIDOW WHO BECOMES ELIGIBLE FOR BENEFITS MANY YEARS AFTER THE DEATH OF HER HUSBAND OFTEN GETS AN EXTREMELY LOW BENEFIT BECAUSE THE BENEFIT WAS INDEXED ACCORDING TO PRICE RATHER THAN WAGE INCREASES FROM THE TIME OF HER HUSBAND'S DEATH UNTIL THE TIME SHE RECEIVES

> THE BENEFITS. HIGHER BENEFITS WOULD HAVE BEEN PROVIDED IF WAGE INCREASES HAD BEEN USED INSTEAD. THE COMMISSION'S PROPOSAL IS TO INDEX THESE "DEFERRED BENEFITS" BY WAGE INCREASES. UNFORTUNATELY, THIS RECOMMENDATION COMES AT A TIME WHEN PRICES HAVE BEEN INCREASING FASTER THAN WAGES. UNLESS THERE IS A PROVISION TO USE EITHER PRICES OR WAGES -- WHICHEVER PRODUCES THE HIGHER BENEFIT -- WE CANNOT BE SURE HOW MANY ELDERLY WIDOWS WILL BE HELPED.

ONE RECOMMENDATION REJECTED AS TOO COSTLY BY THE COMMISSION WOULD HAVE RAISED BENEFITS FOR ABOUT ONE OUT OF FIVE WOMEN. THE PURPOSE OF THE RECOMMENDATION WAS TO IMPROVE BENEFITS FOR WOMEN WHO HAVE COMBINED FAIRLY LONG CAREERS AT LOW WAGES WITH YEARS SPENT IN HOMEMAKING RESPONSIBILITIES. IT WOULD HAVE INCREASED THE NUMBER OF YEARS COUNTABLE TOWARD THE SPECIAL MINIMUM BENEFIT AND WOULD HAVE ALLOWED CREDIT FOR UP TO TEN CHILDCARE YEARS. A CHILDCARE YEAR WOULD HAVE BEEN DEFINED AS ONE IN WHICH THE WORKER HAD A CHILD AGE SIX OR UNDER AND DID NOT EARN ENOUGH TO GAIN A YEAR OF COVERAGE.

WEAL ACCEPTS THE INTENT OF THE COMMISSION'S RECOMMENDATIONS TO IMPROVE THE STATUS OF SOME WOMEN UNDER THE SOCIAL SECURITY SYSTEM. THE COMMISSION'S EFFORTS, HOWEVER, DO NOT ADDRESS IN A COMPREHENSIVE WAY THE CHANGING ROLES OF WOMEN IN SOCIETY OR THE ECONOMIC REALITY OF WOMEN'S LIVES. THIS IS A GOAL FOR THE FUTURE. ONE WAY TO ACCOMPLISH THIS GOAL IS TO PROVIDE WOMEN WITH SOCIAL SECURITY PROTECTION IN THEIR OWN RIGHT, INSTEAD OF AS INDIVIDUALS WHOSE RETIREMENT INCOME IS

DEPENDENT ON THEIR HUSBAND'S WAGE RECORD. THIS WOULD RECOGNIZE A WOMAN'S CONTRIBUTION TO MARRIAGE AS AN ECONOMIC PARTNERSHIP AND WOULD ALLOW HER TO COMBINE SOCIAL SECURITY CREDITS EARNED AS A HOMEMAKER WITH CREDITS EARNED IN PAID EMPLOYMENT. AT THE SAME TIME, WE MUST BE CAREFUL NOT TO ASSUME THAT WOMEN'S ROLE HAS BEEN COMPLETELY TRANSFORMED AND THAT ALL WOMEN WORK AND WILL EARN ADEQUATE SOCIAL SECURITY AS WORKERS. IN 1981, 68 PERCENT OF THE PART-TIME LABOR FORCE WERE WOMEN. ABOUT 50 PERCENT OF ALL WOMEN WITH PRE-SCHOOL CHILDREN ARE NOT PART OF THE PAID LABOR FORCE. ABOUT 40 PERCENT OF MOTHERS WITH CHILDREN UNDER 18 ARE NOT IN THE LABOR FORCE. WOMEN ARE STILL CONCENTRATED IN LOW PAYING DEAD END JOBS AND EARN 59 PERCENT OF WHAT MEN DO. IT WILL BE IMPORTANT TO MAKE SURE THAT CONGRESS DOES NOT PASS A SIMPLE COST SAVING SOLUTION TO THE COMPLEX ISSUE OF ADEQUACY AND EQUITY FOR WOMEN UNDER SOCIAL SECURITY. FOR THOSE WHO WANT TO BALANCE THE BUDGET BY CUTTING SOCIAL SECURITY OR FOR THOSE WHO DO NOT ACKNOWLEDGE THE COMPLEXITY OF THE PROBLEM, THE TEMPTATION WILL BE GREAT. I WOULD LIKE THE SUBCOMMITTEE TO KNOW THAT WEAL IS A MEMBER OF A TECHNICAL COMMITTEE WHICH IS WORKING WITH THE URBAN INSTITUTE TO GENERATE DATA ON THE POTENTIAL IMPACT OF EARNINGS SHARING ON VARIOUS SUBGROUPS OF WOMEN.

RAISING THE RETIREMENT AGE

WEAL IS AWARE THAT RAISING THE RETIREMENT AGE IS NOT AN "OFFICIAL" RECOMMENDATION OF THE COMMISSION'S COMPROMISE, BUT WE WANT TO EXPRESS RESERVATIONS ABOUT SUCH A PROPOSAL. RAISING THE RETIREMENT AGE WILL MEAN BENEFIT CUTS FOR PEOPLE WHO CANNOT CONTINUE TO WORK PAST AGE 65.

RAISING THE RETIREMENT AGE IS ESPECIALLY DETRIMENTAL TO WOMEN, WHO ALREADY RECEIVE LOW BENEFITS AND WHO WOULD RECEIVE EVEN LOWER BENEFITS UNDER THIS PROPOSAL. THE PERCENTAGE OF WOMEN WORKERS RETIRING EARLY AND TAKING REDUCED BENEFITS FOR LIFE IS INCREASING. IN 1978, 72 PERCENT OF WOMEN WORKERS WHO RETIRED TOOK EARLY BENEFITS; IN 1981 THE FIGURE WAS 78.6 PERCENT. CURRENTLY, THE MAJORITY OF WIVES AND WIDOWS OF RETIRED WORKERS ALSO ARE RECEIVING REDUCED BENEFITS. WOMEN TAKE EARLY BENEFITS DESPITE THE FACT THAT THIS WILL MEAN A SUBSTANTIAL REDUCTION IN THEIR MONTHLY SOCIAL SECURITY CHECKS. IN FACT, THE REDUCTION IS MORE SUBSTANTIAL THAN ACTUARIAL CONSIDERATIONS MANDATE. THESE SMALL CHECKS, ESPECIALLY FOR MILLIONS OF ELDERLY UNMARRIED WOMEN, ARE RARELY SUPPLEMENTED BY EARNINGS OR PENSIONS BASED ON THEIR OWN OR THEIR SPOUSE'S WORK. YET WOMEN WILL CONTINUE TO NEED TO RETIRE EARLY. THEY MAY LACK THE EDUCATION, SKILLS, WORK EXPERIENCE, AND CONTACTS NEEDED TO GET AND KEEP A JOB UNTIL THEY RECEIVE FULL BENEFITS. THEY MAY RETIRE FOR HEALTH REASONS OR BECAUSE OF OBLIGATIONS TO PROVIDE HEALTH CARE FOR AN INVALID PARENT, HUSBAND OR OTHER RELATIVE.

IT SEEMS ODD THAT MANY PEOPLE ARE AGAINST GOVERNMENT-IMPOSED ECONOMIC SANCTIONS AS A WAY TO FORCE BUSINESSES AND EDUCATIONAL INSTITUTIONS TO OBEY EQUAL OPPORTUNITY LAWS BUT ARE IN FAVOR OF SUCH SANCTIONS AS A WAY TO FORCE ELDERLY PEOPLE TO WORK LONGER THAN THEY FEEL THEY CAN. ARE OUR PRIORITIES MIXED UP? IF WE HAD BEEN COMMITTED OVER THE YEARS TO ROUTING OUT PERVASIVE DISCRIMINATION ON THE BASIS OF SEX, RACE AND AGE IN EDUCATION AND EMPLOYMENT, PERHAPS A GREATER NUMBER OF ELDERLY INDIVIDUALS WOULD BE RETIRING LATER SIMPLY BECAUSE THEY HAVE GOOD EMPLOYMENT OPPORTUNITIES, CHALLENGING WORK, GOOD PAY, PRESTIGE, ETC.-- THE THINGS THAT KEEP THE ELDERLY WORKING LONGER. (THAT IS NOT TO SAY

THAT LESS FORTUNATE PEOPLE DO NOT ALSO CHOOSE TO CONTINUE WORKING PAST RETIREMENT AGE.) THE DECISION TO RETIRE IS A PERSONAL ONE AND FOR TOO MANY ELDERLY PEOPLE, ESPECIALLY THE DISADVANTAGED, WOMEN AND MINORITIES, IT MARKS THE FIRST TIME THEY CAN EXERCISE REAL CONTROL OVER THEIR LIVES -- AND MORE IMPORTANT -- THE REMAINDER OF THEIR LIVES.

ANY PROPOSAL TO RAISE THE AGE AT WHICH WORKERS WOULD RECEIVE FULL RETIREMENT BENEFITS WOULD BE BASED ON SEVERAL FAULTY ASSUMPTIONS: THAT THERE IS A SOLID LINK BETWEEN LIVING LONGER AND LIVING LONGER IN GOOD HEALTH; THAT THOSE ABLE TO WORK TO A LATER AGE ARE WELCOME IN THE WORK FORCE AND THAT MOST RETIRED ELDERLY SUPPLEMENT THEIR SOCIAL SECURITY BENEFITS BY ANOTHER SOURCE OF RETIREMENT INCOME AND THEREFORE CAN TOLERATE REDUCED BENEFITS IF THEY RETIRE EARLY.

IT IS A MISTAKE TO THINK THAT THE ELDERLY ARE WELCOME IN THE WORK FORCE AND ARE GIVEN CREDIT FOR THEIR EXPERIENCE, WISDOM OR SKILLS. AGE DISCRIMINATION IS WORSENING DESPITE THE AGE DISCRIMINATION ACT (ADEA). IN 1981, THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION REPORTED 76 PERCENT MORE AGE DISCRIMINATION CHARGES THAN IN 1971. THINK OF HOW MANY INCIDENTS PROBABLY WENT UNREPORTED. WOMEN EXPERIENCE THE COMPOUNDING EFFECTS OF AGE AND SEX DISCRIMINATION. OLDER WOMEN WHO TRY TO ENTER THE WORK FORCE AFTER YEARS IN THE HOME OFTEN CANNOT FIND JOBS, PARTICULARLY IN NON-TRADITIONAL OCCUPATIONS WHICH PAY WELL AND OFFER RETIREMENT PLANS. ADEA DOES NOT COVER AGE DISCRIMINATION IN ACCESS TO APPRENTICESHIP JOBS. WHILE THIS INEQUITY AFFECTS OLDER WORKERS OF BOTH SEXES, WOMEN ARE MORE LIKELY THAN MEN TO POSTPONE EMPLOYMENT FOR HOMEMAKING RESPONSIBILITIES AND ENTER THE WORK FORCE LATER -- EITHER BY CHOICE OR BY NECESSITY.

ALTHOUGH STATISTICS TEND TO INDICATE THAT OLDER WOMEN FIND EMPLOYMENT FASTER THAN OLDER MEN, THIS IS NOT THE CASE. OLDER WOMEN SEEKING JOBS OFTEN STOP ACTIVELY SEEKING EMPLOYMENT AFTER A SHORT PERIOD OF TIME AND BECOME DISCOURAGED WORKERS. CURRENTLY ONLY 8 PERCENT OF WOMEN OVER AGE 65 ARE IN THE WORK FORCE AS COMPARED TO 18 PERCENT OF MEN.

IT IS UNWISE TO DICTATE THAT PEOPLE WORK LONGER WITHOUT PROGRAMS IN PLACE TO PROVIDE TRAINING AND RE-TRAINING FOR AVAILABLE FULL AND PART-TIME JOBS, WITHOUT IMPROVED ENFORCEMENT OF THE ADEA AND OTHER EQUAL OPPORTUNITY LAWS, AND WITHOUT A REVAMPED DISABILITY PROGRAM WHICH WOULD PROVIDE MEDICARE COVERAGE AS WELL AS RETIREMENT BENEFITS TO PEOPLE WHO RETIRE AS EARLY AS AGE 62 UP TO THE REGULAR AGE FOR RECEIPT OF FULL BENEFITS. AT THE VERY LEAST, IF THE "NORMAL" RETIREMENT AGE IS RAISED, PROVISION SHOULD BE MADE SO THAT THE BENEFITS BELOW A CERTAIN THRESHOLD ARE NOT REDUCED FOR EARLY RETIREES.

IN CLOSING, I WOULD LIKE TO REITERATE WEAL'S CONCERN THAT THE COMMISSION RECOMMENDED A SIX-MONTH COLA FREEZE, AND, IN ADDITION, MAKE IT COMPLETELY CLEAR THAT WEAL WOULD VIGOROUSLY OPPOSE ANY FINANCING RECOMMENDATIONS THAT WOULD HAVE THE EFFECT OF FURTHER REDUCING BENEFITS FOR RECIPIENTS, THE MAJORITY OF WHOM ARE WOMEN ALREADY RECEIVING LOW SOCIAL SECURITY BENEFITS.

MS. NANCY DUFF CAMPBELL, ATTORNEY, NATIONAL WOMEN'S LAW CENTER, WASHINGTON, D.C.

Ms. Campbell. Thank you. I have the burden of being the last speaker and the pressure of having to move quickly.

My name is Nancy Duff Campbell. I am an attorney at the National Women's Law Center, and I'm here to testify on behalf of the Center as well as 13 other national organizations, which I won't use part of my time to list for you, but I call to your attention that they are a diverse group.

We generally support the recommendations of the Commission, with particular modifications, although I agree with the other speakers that this is not the end of the process and that much remains to be done in the system to assure equity and adequacy for women. In general an earnings-sharing proposal is the approach that should be taken, assuming that it can be taken in a complex way that does not deny benefits to current recipients.

Rather than go through the points in our testimony that are the same, essentially, as the other two panelists have made, I would like to just focus on a couple of points that have not yet been made.

The first is that we are most concerned, as are the others, about the COLA freeze and the advancing of the payroll tax increase.

With respect to the COLA freeze, I would urge the committee to consider an amendment that I understand was made on the House side by Mr. Conable yesterday, which attempted to ameliorate the effect of the freeze in part by stating that even if the cost of living does not go up 3 percent this year, that beneficiaries should, next January, assuming the delay in the COLA, get the full increase of whatever the cost of living has been. Under current law it takes a 3-percent increase to trigger any increase in social security benefits.

In addition, I would urge that care be taken to assure that SSI beneficiaries receive a COLA in July. Right now their benefit is tied to social security benefits, and it should be untied for purposes of giving them a COLA in July. Then I think it should be tied back into social security so that in January they will move back on the same track as social security beneficiaries, so that in general they proceed with those beneficiaries and get cost-of-living increases at the same time.

Picking up on the discussion of earlier panels regarding the coverage of Federal employees and nonprofits, I clearly agree with the other panelists here, and I think it was interesting that none of the panelists that I heard this morning remarked at all upon the inadequacies in the current Federal system for women. And I would urge that in any supplemental that is developed, care be taken in that supplemental also to increase equities for women as well as bring them under social security coverage.

I urge the committee to look particularly at the marriage tax problem with the taxing provisions proposed by the Commission, and the notch that has been created, which I think the Commission was aware of and that Congress will have to work out.

On the windfall issue, which also was discussed this morning, it's unclear to me from the Commission's recommendations what the various options are as to how that would work, and therefore what its impact would be on either women or men. But, again, I think it is important to consider that there are some people who get the benefit of the so-called windfall who have very low pensions. It seems to me that there should be some protection in there so that you are not just changing the weighting of the benefit for everybody who has a public pension, but you are looking at the amount of that pension in determining whether there really is a windfall or not.

We support the women's provisions, although agree that they do not cover that many women. We think that, in particular, two modifications could be made there—one on the disabled surviving spouse benefit, raising it from 71.5 percent of the PIA to 100 percent, which wouldn't cost very much; and, in the wage-indexing provision, to include a provision to assure that no one gets hurt who would currently be benefited by price increasing. Again, that wouldn't raise the cost above the current costs of the system.

We support generally those Commissioners who favor raising revenues rather than increasing the age of retirement, and hope that, in dealing with the long-range issues, changes in the retirement age, even if they have been over a fairly long time, are not included in the package without some very real consideration of what the impact would be in terms of benefit costs and benefit cuts for people.

In general we urge the committee and all Members of Congress to turn to earnings sharing as quickly as possible, if not immediately, as soon after this round is over. We think there will be many social security changes for years to come, and this is not our last shot at it; but we hope that it will be taken seriously and given as much importance and prestige as these current problems that are being considered, and that real changes will be made to make the system more equitable for women.

[Ms. Campbell's statement follows:]

TESTIMONY OF

NATIONAL WOMEN'S LAW CENTER;
CENTER FOR WOMEN POLICY STUDIES;
CHILDREN'S FOUNDATION;
MEXICAN-AMERICAN LEGAL DEFENSE AND EDUCATION FUND;
NATIONAL BLACK CHILD DEVELOPMENT INSTITUTE;
NATIONAL COUNCIL OF CATHOLIC WOMEN;
NATIONAL COUNCIL OF NEGRO WOMEN;
NATIONAL COMMISSION ON WORKING WOMEN;
NATIONAL INSTITUTE FOR WOMEN OF COLOR;
NATIONAL WOMAN'S PARTY;
OFFICE OF PUBLIC POLICY, WOMEN'S DIVISION,
UNITED METHODIST CHURCH;
WASHINGTON, D.C. CHAPTER,
NATIONAL CONFERENCE OF BLACK LAWYERS;
WOMEN'S LEGAL DEFENSE FUND; and
WOMEN USA

ON

THE IMPACT ON WOMEN OF THE RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

SUBMITTED TO THE

COMMITTEE ON FINANCE

U.S. SENATE

FEBRUARY 22, 1983

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This testimony presents the views of the National Women's Law Center; Center for Women Policy Studies; Children's Foundation; Mexican-American Legal Defense and Education Fund; National Black Child Development Institute; National Council of Catholic Women; National Council of Negro Women; National Commission on Working Women; National Institute for Women of Color; National Woman's Party; Office of Public Policy, Women's Division, United Methodist Church; Washington, D.C. Chapter, National Conference of Black Lawyers; Women's Legal Defense Fund; and Women USA on the impact on women of the recommendations of the National Commission on Social Security Reform designed to ensure the continued solvency of the Social Security system.

The importance of the Social Security system to women, especially low-income women, is beyond dispute. Women represent 53 percent of all Social Security beneficiaries, and 67 percent of all individuals living in poverty.* Women and children represent 64 percent of all Social Security beneficiaries and 75 percent of all individuals living in poverty. Moreover, families maintained by women have a poverty rate six times that of families maintained by men or by couples -- 31 percent versus 5 percent. Minority families have even higher rates -- over 50 percent of minority families maintained by women live in poverty.

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* Statistics used in this testimony are culled from many sources, most of which are government documents. Secondary sources relied upon include materials of the Children's Defense Fund, Disability Rights Education and Defense Fund, Inc., Mental Health Law Project, Older Women's League, Women's Equity Action League, and Women's Research and Education Institute of the Congressional Caucus for Women's Issues, all of whose assistance we gratefully acknowledge.

For older women and disabled women in particular, the solvency of the Social Security System is critical. Women are 60 percent of all Social Security beneficiaries over over the age of 65, and 71 percent of all the elderly poor. Indeed, older women are nearly twice as likely to be poor as older men. Moreover, women of Hispanic origin over the age of 65 have poverty rates nearly three times those of men, and Black women have rates nearly four times those of men. Women are 44 percent of all Social Security beneficiaries receiving benefits as disabled workers or as surviving spouses of disabled workers, and 74 percent of all the disabled poor. Although racial and ethnic-origin data of disabled women is not readily available, in general Black and Hispanic-origin individuals are 25 percent more likely to be disabled than white individuals.

The poverty of many women Social Security beneficiaries is a reflection in part of women's general economic status. Women's employment in low-wage jobs in predominately female occupations, as well as their sporadic employment histories due to family responsibilities, result in Social Security workers benefits that are far below those of men. In April, 1982, the average monthly Social Security benefit for retired women workers was $335 as compared with $433 for retired men workers; for disabled women workers it was $327 as compared with $454 for disabled men workers. Women who receive benefits as spouses or widows fare equally poorly. In April, 1982, the average monthly wife's benefit was $196; the average monthly benefit of a wife of a disabled worker was $119; the average monthly widow's benefit was $351; the average monthly disabled widow's benefit was $226.

For women the continued solvency of the Social Security system is obviously critical. Our testimony today addresses the impact on women of the package of recommendations contained in the January 1983 Report of the National Commission on Social Security Reform, designed to alleviate the financing problems of the Old Age and Survivors Trust Fund (OASI). At the same time we wish to make clear that changes in the current system must go beyond those in the Commission's Report needed to ensure solvency, and encompasses reforms that will make the system more equitable for women. In particular, improvements must be made that will make the system responsive to the changed roles of women in society and the economy since the Social Security Act was enacted in 1935. The earnings sharing proposals of Representative Oaker and Senator Cranston provide the beginning framework for debate on the best ways to improve the system for all women. Once the current financing problems are resolved, these proposals should be given serious consideration by both houses of Congress. Women should not be made to wait longer for these needed reforms.

A. The Commission's Consensus Recommendations

The importance of treating the Commission's consensus recommendations as a package has been stressed by many. Although we understand that in the end the Commission's recommendations may stand or fall as a package, we believe that modest modifications of one or more of the recommendations should be possible under any scenario. We urge the Congress to consider the impact on women of any proposals it may enact into law, including those described here, and to adopt the modifications we propose in the Commission's recommendations.

1. Cost-of-Living Adjustment Changes

Since 1972, automatic cost-of-living adjustments (COLAs) tied to price increases have provided some measure of protection against the ravages of inflation for Social Security beneficiaries who, almost by definition, live on fixed incomes. Benefits are adjusted each July to reflect increases in the Consumer Price Index, when the increase has been at least 3 percent.

The Commission recommends that future COLA increases be payable in January, rather than July. In addition, the July, 1983 increase would not be paid, so that the next benefit adjustment would occur in January, 1984. This six-month delay in cost-of-living increases at the current inflation rate of 3.9 percent could result in an average benefit reduction for women of approximately $15 a month.

Because of the large numbers of women receiving Social Security benefits, and their far greater dependency on such benefits than men, this recommendation will impact more disproportionately on women than any other of the Commission's recommendations. If some cut in benefits must be a part of any financing package, a three-month delay would be far more acceptable than a six-month delay.

In an attempt to alleviate the impact that this recommendation would have on very low-income individuals, the Commission recommends a monthly increase, from $20 to $50, in the amount of Social Security benefits that may be disregarding in determining both eligibility for and the amount of Supplemental Security Income (SSI) benefits. The increase in the SSI disregard will help to offset the Social Security benefit reductions for those nearly 70 percent of aged SSI recipients who are also Social Security recipients, a majority of whom are women. However, it is estimated that over half of the aged poor, for one reason or another, do not receive SSI. To the extent they are not eligible for SSI (for example, because of income or assets above the SSI eligibility levels), the increase in the SSI disregard will be of no help to them. In order to ensure that all Social Security recipients who are eligible for SSI apply for such benefits -- and thus minimize the detrimental effect of the proposed change in the Social Security COLA -- all Social Security recipients with benefits below the SSI eligibility levels (including the new $50 disregard) should be notified of their potential SSI eligibility, and follow-up work should be done by Social Security staff to ensure that individuals eligible for SSI who desire to apply for SSI are able to do so.

In addition, to further ensure that SSI beneficiaries are not harmed by any delay in the Social Security COLA, care must be taken in drafting to ensure that the SSI COLA, which is now tied to increases in the Social Security COLA, is not eliminated for July, 1983. To keep the SSI and Social Security COLAs generally tied together, however, SSI recipients should have their benefits adjusted as scheduled in July, 1983, and thereafter in January of each year. (For the first year they would receive a six-month adjustment in January, 1984.)

2. Advancing Payroll Tax Increases

Another Commission recommendation which disproportionately impacts on women, in this case younger women in the workforce, is the advance in the payroll tax increase. Under current law, the Social Security payroll tax is scheduled to increase in 1985, 1986, and 1990. The Commission recommends accelerating some of the increase by (1) moving to 1984 the OASDI tax rate scheduled for 1985, (2) retaining for 1985-87 the rate as scheduled under current law, and (3) moving to 1988-89 part of the rate scheduled for 1990. (The Health Insurance tax rates for all years would be unchanged.) For 1984 only, a refundable income tax credit would be provided against an employee's federal income tax liability in the amount of the increase in his or her taxes over what would have been payable under current law.

This proposed change would result in an increase in the employee's and the employer's total Social Security tax burden in 1984 of 7.0 percent each, up from the current 6.7 percent each. By 1988-89 the rate would increase to 7.51 percent each, up from the 7.15 percent scheduled under current law. For 1990 and after the rate would be 7.65 percent each.

Because of the impact that these rate increases will have on low-income workers in particular, many of whom are women single heads of families, it is essential that they be coupled with a refundable federal income tax credit not only for 1984 but for all or part of the succeeding years as well. Indeed, the rate increase that the Commission proposes to advance to 1984 is smaller than the increase it proposes to advance to 1988, and by 1990 the rate will have increased nearly one whole percentage point over the current rate. For an individual earning $10,000 annually the increase would amount to $30 in the first year but (assuming a constant salary) to $105 by 1990. Clearly it is equally if not more important for that individual to obtain income tax relief in the later years as it is in 1984.

Although earlier opinion polls showed that the public prefers higher Social Security taxes to benefit cuts for current or future recipients, a recent Washington Post-ABC News poll showed lack of majority support for the tax increases proposed by the Commission. Not only low-income workers in general but also workers employed by small businesses (many of whom are low-income workers) stand to lose from this proposal, because of the burden these increases will place on such employers. Hiring and other personnel decisions, which impact more severely on women because of their high unemployment rates, may be affected by this change.

If some increases in tax rates must be part of the package, the increases proposed by the Commission are preferable to other options it was considering, including advancing the 1990 increase to 1984. But we urge that any such increases be accompanied by a refundable income tax credit against all or part of the increases, to ease the burden on low-income workers.

3. Coverage of Employees of Non-profit Organizations, New Federal Employees, and State and Local Government Employees

Under current law, Social Security coverage is voluntary for nonprofit organizations, such as religious institutions, most hospitals, certain research and educational institutions, and charities. Approximately 85 percent of the at least 6.5 million employees of non-profit organizations are covered by Social Security. Similarly, Social Security coverage is voluntary for state and local governments. Approximately 75 percent of the 13.5 million state and local government employees are covered by Social Security. The third largest group of employees not covered by Social Security are the over 2.6 million employees of the federal government, who are excluded by law from such coverage.

The Commission recommends that, as of January, 1984, Social Security coverage be mandatory for all employees of non-profit organizations, new employees of the federal government, and all employees of state and local government that have not withdrawn from the system. Each of these changes would in general benefit women, for several reasons.

In the case of both non-profit organizations and state and local governments who opt out of Social Security, there is no requirement that they offer their employees an alternative pension, disability and/or life insurance plan. Moreover, to offer such a plan that is at all comparable to Social Security can be as expensive as Social Security coverage, thus undercutting the reason that most employers opt out of Social Security in the first instance -- to save money. Finally, even good private plans do not always provide the best protection to low-wage intermittant workers -- most of whom are women. There may be long periods before a pension vests, and the contributions may not be able to be transferred from one job to another. In addition, automatic cost-of-living adjustments are not often a part of such pension plans. Finally, benefits for spouses as well as survivors (especially divorced spouses and divorced surviving spouses) may be nonexistant or optional with the worker, and, if they exist, are accompanied by a reduction in the worker's benefits. Since women usually outlive their husbands by a number of years and, because of their work histories and low wages, are more in need of protection as spouses, ex-spouses and survivors than are men, the absence of such protection for them under these plans is a critical deficiency.

For similar reasons, the mandatory coverage of new federal employees is beneficial to women, assuming that the Civil Service Retirement System is modified to include a supplementary retirement plan (similar to those in the private sector) that provides, together with Social Security, retirement income equivalent to that that will be received by current federal workers who will continue to remain outside the Social Security system. Stringent vesting requirements, the non-portability of contributions, the non-mandatory nature of the protection for survivors and the absolute lack of protection for divorced surviving spouses all render the federal Civil Service Retirement System generally less advantageous to women than the Social Security system. Even the most important area in which the federal system is more advantageous than Social Security -- in the amount of benefits paid to high-earner career civil servants -- is less important to women than it is to men, because the top echelons of government are still dominated by men. However, an adequate supplementary retirement plan for new federal employees should be a part of any plan enacted, to make up for any income loss occasioned by mandatory Social Security coverage.

4. Increasing the Self-Employment Tax

Under current law self-employed persons pay slightly more than two-thirds of the combined employer/employee tax rate for wage and salary workers, but they receive benefits as if they had paid the full amount. The Commission recommends that the tax rate for the self-employed be raised to the combined employer/employee rate, effective January, 1984. In addition, the self-employed would be permitted to deduct one-half of the new payment as a business expense for federal income tax purposes.

Although the deduction would offset some of the increase, the increase would still be a sizeable one, especially because it is an increase to the level of an also-increased combined employer/employee payroll tax rate. Moreover, women who are self-employed (although they are only one-third of all non-agricultural self-employed workers) earn less than their male counterparts. The median income from self-employment in 1981 was $7,912 for men and $1,688 for women. Although these totals may underrepresent total family income because many self-employed persons hold other part-time or full-time jobs (in 1981 the total family income was higher for the self-employed of both sexes than for wage or salary workers), the increase will represent a substantially greater burden for low earners than for high earners. For these reasons the deduction from federal income taxes proposed should be converted to a credit against such taxes, to further ease the total tax burden of the self-employed.

5. Taxation of Benefits

Under current law, Social Security benefits are not taxed -- in part because the employee's contribution to the Social Security system is not tax-exempt. The Commission recommends taxing part of the Social Security benefits received by higher-income individuals and couples. Single taxpayers with adjusted gross incomes of $20,000 or more and couples with adjusted gross incomes of $25,000 or more (in both instances, not counting their

Social Security benefits) would have 50 percent of their Social Security benefits added to their adjusted gross incomes in calculating their federal income taxes.

This recommendation would have very little impact on women living alone or who are the sole support of their families, because of their low incomes, and would have no effect on low- or moderate-income beneficiaries in general. In 1981, just under 6 percent of all unrelated individuals at least 65 years old, and 22 percent of families headed by a householder at least 65 years old, had incomes (before any deductions used to determine adjusted gross income for tax purposes) of $20,000 and $25,000 or more. The $20,000 and $25,000 figures should be indexed, however, to ensure that they continue to reflect a decision to tax only higher-income Social Security beneficiaries.

Two problems with the $20,000 and $25,000 figures remain which need addressing. First, a differential of only $5,000 in income for couples represents an inequitable marriage tax because two single individuals living together could have far more total income before taxation of their benefits than could a married couple. Second, as the Commission itself recognizes, a "notch" is present in its proposal in that those with adjusted gross incomes of just under the limit of $20,000/$25,000 would have a larger total income (including Social Security benefits) than those with adjusted gross incomes just over the limit. Both of these problems need correcting in the legislative process.

Although objection has been raised to the taxation of benefits in this manner because it introduces means testing into the Social Security system, we do not share this objection. Indeed, the system already targets greater benefits to those at the lower end of the income scale through the weighted benefit formula and this recommendation is fully consistant with that aspect of the system, which we consider an essential component of Social Security.

6. Delayed Retirement Tax Credits

Under current law, a worker who postpones retirement beyond age 65 receives a 3 percent "bonus," or increase in Social Security benefits, for each year of postponement up to age 70. The Commission recommends that this bonus be increased gradually to 8 percent beginning in 1990.

This approach to encouraging a longer worklife is a salutory one, and certainly far preferable to one of increasing the retirement age (see discussion infra). It is likely to have little impact on women, however, for several reasons. First, most workers, but particularly low-income workers (many of whom are women) retire between the ages of 62 and 65, despite the bonus in the current law. Moreover, most women retire when their husbands retire and are typically younger or the same age as their husbands so that they retire at age 65 or somewhere between ages 62 and 65.

7. Benefit Formula Changes for Individuals Entitled to Pensions From Non-Covered Employment

Under current law, individuals with low earnings from covered employment receive a relatively high Social Security benefit in proportion to their earnings because of the weighted benefit formula, which was designed to assist low-income workers and their families. When an individual works for many years in non-covered employment, however, he or she may receive a substantial pension as well as a high Social Security benefit, the latter being higher than it would have been if he or she had worked for an equivalent amount of time in covered employment because of the weighted benefit formula. The Commission recommends eliminating what is termed the "windfall" portion of this Social Security benefit by reducing the weighting factors in the formula for persons with pensions from non-covered employment, effective for individuals becoming eligible for such pensions after 1983. The goal is to provide these individuals with Social Security benefits that are "more nearly of a proportionate basis than the heavily-weighted benefits now provided." Commission Report, p. 2-9.

This change would result in a benefit cut for some Social Security recipients as early as 1984. It is difficult to analyze its impact on either women or men until the details of the way in which it would be accomplished are known. If such a change must be made, it should be made in some manner that ensures that those with low pensions, for whatever reason, are not penalized. We prefer a variation of the second method suggested by the Commission: first apply the present benefit formula to an earnings record that combines both covered earnings and non-covered earnings, for the purpose of determining a replacement rate; then apply that replacement rate to the average earnings based solely on covered employment. In addition, however, those with pensions below a certain monthly amount should be entitled to the weighted benefit formula as under current law. This would ensure that persons with low pensions from non-covered employment are not penalized, because their Social Security benefits are likely to be so essential to their livelihood.

8. Potential Later Changes in Cost-of-Living Adjustments

As noted above, cost-of-living adjustments are currently tied to increases in the Consumer Price Index. The Commission recommends that if, beginning in 1988, the OASDI trust fund reserves at the beginning of any year fall below 20 percent of annual outgo from the fund, cost-of-living adjustments would be based on the lower of price or wage increases, until the ratio again reached 20 percent. At that time COLAs based on the CPI would be resumed. In turn, if the ratio reaches 32 percent at the beginning of a year, supplemental payments would be made to Social Security recipients to make up for any use of wage instead of price increases, to the extent that funds above the 32 percent are available.

The purpose of this recommendation is to provide a "stabilizer against the possibility of exceptionally poor economic performance over a period of time." Commission Report, p. 2-17. Although the purpose is laudable, the effect may well be a substantial benefit cut for future recipients if prices rise faster than wages. This is a particular problem for those recipients who receive low benefits and/or have low total family income, the vast majority of whom are women. Alternative stabilizers, without these deleterious effects, should therefore be pursued.

9. Changes in Benefit Provisions that Affect Mainly Women

In partial recognition of the special problems that women encounter under Social Security, the Commission included within its recommendations four proposals that would improve the benefits that women now receive. Each proposal affects a relatively small percentage of the recipient population, and accordingly even the total cost of all the provisions is small. Although these proposals are in no way a substitute for the greater structural changes in the system that are needed to improve the status of women generally under Social Security, they are a start. They should be adopted with the minor modifications suggested below.

a. Remarriage benefits

Under current law surviving spouses who remarry after age 60 are permitted to continue to receive Social Security benefits based on their deceased spouse's earnings record. However, due to a technical drafting oversight, several categories of widows and widowers were not included in the current statutory provision permitting remarriage without loss of benefits. The Commission recommends correcting this oversight by permitting remarriage without penalty for (1) disabled surviving spouses aged 50-59,

(2) disabled divorced surviving spouses aged 50-59, and (3) divorced surviving spouses aged 60 or over.

This recommendation treats divorced and disabled surviving spouses like all other spouses and hence should be enacted. Its cost estimates are low because remarriage is not a viable option for most older disabled surviving spouses or divorced spouses, particularly women. The remarriage rate per 1,000 women aged 45-64 was just 13.6 in 1977. It was 2.6 per 1,000 for women aged 65 and older.

b. Retirement of divorced spouses

Under current law a divorced spouse whose marriage lasted at least 10 years is not eligible for a retirement benefit until her (less often, his) spouse retires. The Commission recommends that a divorced spouse be able to collect benefits when she or he reaches retirement age if the ex-spouse is eligible for retirement benefits, regardless of whether the latter benefits have been claimed.

This recommendation is an important one for divorced women whose ex-spouses postpone retirement or decide not to retire at all. Although the result is that divorced spouses may become entitled to benefits before current spouses whose marriage partners have postponed retirement or decided not to retire, this result is justified by the fact that the marriage is still intact in the latter situations and the economic circumstances are therefore likely to be different. The estimated cost of this recommendation is low because the numbers of individuals who would benefit from it is small. Most men retire by at least age 65 and their ex-wives are typically younger or the same age as they are so that by the time they reach retirement age their ex-husbands will have retired. In addition, because divorced men usually receive benefits on their own records rather than spouse's benefits, and are older than their spouses, this change would have little impact on them.

c. Wage-indexing of earnings records

Under current law, surviving spouses -- unless they are disabled or have young children in their care -- must wait until age 60 to receive Social Security benefits. Benefits are calculated on the deceased spouse's earnings record, indexed according to changes in the Consumer Price Index. The Commission recommends that wage indexing be used instead. Although this proposal is intended to increase survivor's benefits -- because wages traditionally rise faster than prices -- in recent years prices have risen much faster than wages. Accordingly, the proposal should be modified to provide that wage or price indexing, whichever is more favorable, should be used. This is necessary to ensure that no one is harmed by this proposal, and should add nothing to the already-low cost estimates because it simply reflects the cost that would have occurred under current law.

Because the average age of widowhood is 56, a substantial number of women stand to benefit from this proposal. Hence the indexing method used to determine their benefits is critical -- even more so if they are widowed at a younger age or wait until age 61 or later to collect their survivor's benefits.

d. Disabled surviving spouses

Under current law, disabled surviving spouses claiming benefits at ages 50-59 receive benefits based on 50 percent of the deceased spouse's primary insurance amount (PIA, or the amount on which all monthly Social Security benefits are based) at age 50, gradually increasing to 71.5 percent at age 60. The Commission recommends that disabled surviving spouses aged 50-59 receive benefits based on 71.5 percent of the deceased spouse's PIA, the same rate that is currently applicable to non-disabled surviving spouses first claiming benefits at age 60. The change would be applicable not only to new beneficiaries but also to beneficiaries who are on the rolls as of the effective date of the provision.

This is an important change for disabled surviving spouses, especially women (most disabled men receive benefits based on their own rather than their spouse's earnings records). Because they are unable to work, and alternative sources of income are likely to be non-existant, they cannot wait until age 60 to take advantage of the higher rate in current law. Indeed, consideration should be given to providing them with 100 percent of their deceased spouse's PIA, since the cost of the proposed change is very low. Even under a raise to 71.5 percent, the benefit to individuals may be substantial. In 1979, a disabled

50-year-old widow received a monthly benefit of, on the average, about $155. Under the proposed change her monthly benefit would have been approximately $222.

B. Financing Proposals Beyond Those in the Commission's Consensus Package

The Commission estimates that its consensus package of recommendations should meet the short-range financing deficit projected for the Social Security system, as well as about two-thirds of the long-range deficit. Seven of the Commission's twelve members agree that the remaining one-third of the long-range deficit should be met by an increase in the normal retirement age of 65 at the rate of one month a year -- to age 66 in 2015, beginning the phase-in with those who attain age 62 in 2000. Beginning with those who attain age 62 in 2012, the normal retirement age would be automatically adjusted (on a phased-in basis) so that the ratio of the retirement-life expectancy to the potential work-lifetime (from age 20 to the "normal" retirement age) remains the same over the years as it was in 1990.

The other five Commissioners agree that the remaining one-third of the long-range deficit should be met by an increase in the payroll tax rates in 2010 of slightly less than one-half percent (0.46%) of covered earnings on the employer and the same amount on the employee (with an equal combined rate for the self-employed), with the employee's share of the increase offset by a refundable federal income tax credit. Alternatively, these Commissioners agree the revenue could be supplied by an equivalent general revenue contribution, or some combination of general revenue contributions and tax increases.

To the extent that Congress finds it necessary to enact legislation now to meet all of the projected long-range deficit, we prefer the approach of the five Commissioners and affirmatively oppose that of the seven Commissioners, or other proposals to increase the age of retirement. First, increases in the retirement age represent benefit cuts. If the age is raised to 68, benefits would be reduced by 20 percent relative to those received at age 65; if it is raised to age 67, the cut is 13 percent; and if raised to age 66, the cut is 7 percent.

Those who would suffer most from this proposal are those who could not work or could not find jobs up to the newly set retirement age. Although life expectancy has increased since the Social Security Act was enacted with 65 as the normal retirement age, two leading government authorities on health and the aging testified before the Commission that data on increased longevity include no evidence that health improves commensurately. If anything, what evidence there is demonstrates the contrary: more people are living longer but with more chronic illness and impairments. Also, recent increases in longevity may be related to retirement at earlier ages.

This proposal would also cut future protection for young workers, the very group now being asked to pay in more and for a longer period of time. If changes are to be made that affect the retirement age, a better approach is that adopted in the

Commission's consensus recommendations: to increase incentives for later retirement without mandating it for all potential beneficiaries.

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In conclusion, we recognize that the consensus recommendations of the Commission represent a compromise of many competing interests and as such we generally support those recommendations with the modifications in them proposed here. In addition, we oppose the recommendation of seven Commissioners to raise the retirement age and in lieu of that recommendation support the raising of additional revenues as the means of meeting additional financial needs of the Social Security System.

Respectfully submitted,

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The **CHAIRMAN**. Well, thank you very much.

I am not certain of the revenue impact of those two modifications, but we will check and see.

We haven't given up on some of the other ideas either. How would you react—you know the retirement trust fund is going to be in better shape around 1990 or 1995—if we could work some changes to be phased in during that time? We are exploring that with your groups and others to see not only what that would accomplish but what the revenue impact might be. Do you have any interest in that? Or do you want to just wait and try to do it later?

Ms. **GOLDSMITH**. That is a proposal that we would find worth looking at, for a couple of reasons: Both because it would allow people a period of years during which to become accustomed to the idea and to prepare for an earnings-sharing system in advance, and also because it would help to alleviate the problems that might be met by some people in some situations of collecting benefits that moving it to that period of time would lessen.

So it is something that we would be interested in looking at.

Ms. **CAMPBELL**. I think we would agree with that. Our concern really is that a lot of the packages that have been proposed will result in benefit cuts for certain individuals, both men and women, and we think it is very important that these be looked at carefully.

I think, as your staff is aware, some of us are working on a technical committee with the Urban Institute to try to collect some data on earnings sharing that we hope to have later this spring, so that we can come up with some kind of a model that wouldn't have those problems.

The **CHAIRMAN**. Does WEAL feel the same?

Ms. **FORMAN**. Yes. I agree with both panelists.

The **CHAIRMAN**. I think you are right—we probably will be looking at social security again sometime. We have been told these efforts are going to fix it up for 75 years, but I don't think I would wait that long. That doesn't mean we can't make changes in the system, even though we may have made a number of the right decisions this year.

As I understand it, you obviously support the provisions we have in the compromise that affect women; but, as you properly suggest, they don't do a great deal. They will be helpful to a limited number of women.

But I understand you generally support the package; is that correct?

Ms. **GOLDSMITH**. Yes.

The **CHAIRMAN**. And I think it is well to note that those who appeared opposing universal coverage were all men. Did you notice that?

Ms. **GOLDSMITH**. Yes.

Ms. **CAMPBELL**. Yes, really.

The **CHAIRMAN**. Senator Durenberger.

Senator **DURENBERGER**. Thank you, Mr. Chairman.

Let me say one or two things on the general subject. Having worked now for 4 years with all of the organizations and with you as individuals on the Economic Equity Act, in the beginning we deliberately set social security aside because we knew that someday that was a subject we were going to have to deal with.

Today, to the credit of the Commission, and I think they made a real effort even though they were limited in terms of revenue projections, I was pleased in going over the Commission Report to see that there was a substantial effort on the part of the Commission to deal with those parts of the social security system that don't reflect the reality of women in America today.

My problem as I sit here and listen to this discussion and listen to the chairman talk to you about what we might be able to do in the early 1990's is that I think there are a lot of people out there that are going to expect that if we don't "do social security in 1983" we will never do it. And I have some substantial hesitancy about adopting the notion that we can come back to it next year and the year after and the year after that, and so forth.

So it seems to me that, rather than dealing in issues like the impact of the COLA change, which we recognize, and things like that, that if there are some of the more substantive changes that ought to take place now, I think we ought to see that those changes take place that reflect the reality of the impact on women; because I have, somehow, this sense that we are going to do age changes and other things and then say we've solved the problem and don't ever have to come back to it.

So that is sort of an internal struggle I suppose we will all have to go through in the course of this process.

But I want the chairman and I want you to know that it has been a difficult one for me. I hate to pass up this opportunity, because I sense that it's the last one we may well have.

If there is any way that those of us who are currently in office can perceive that we are washing our hands of this issue through the eighties, we are going to try to do it. I guess that is just the nature of the process.

But the kinds of issues that you are dealing with here don't just affect social security; they affect the pension system; they affect a whole lot of other things out there.

So I think it really is appropriate that you have taken the time to analyze, as you have, the areas that the Commission didn't cover that ought to be covered.

I have just one specific question that relates to the last comment the chairman made relative to the universal coverage.

I have had the experience on my staff since I have been here of having women in particular just either cash in their civil service plan for whatever reason, and it seems to be more prevalent, at least on my staff, with women employees than it is with others.

I heard here recently that only 50 percent of the Federal employees are vested in this plan, or whatever it is, something like that. So it strikes me that maybe one of the—and maybe this got discussed earlier in the day, before I got here. But should we not, as we propose to extend social security coverage to new Federal employees, should we not also make it optionally available to current employees? Some of those kinds of people that I was just talking about who don't believe they are going to be in the workplace forever, that they are going in and out on an intermittent basis, who are here already, might just make the choice to take social security rather than the Federal pension.

I don't know whether you have given that any thought in analyzing your proposals or not, but I would appreciate your reaction.

Ms. CAMPBELL. Well, to respond to both of your points, I think that the concern about dealing with earnings sharing now is of course cost, and money, and how much in the current budget would be put into a plan like that, and that if we had some assurances and some way of making sure that we came out with an equitable system, I don't think there would be any question but that we would want it now.

I am not so concerned that if you don't do it now you will never do it, because we are going to be out here, and I think there is a perception that we are all a force to be reckoned with and that we are not going to let you forget it if you don't do it now.

In response to the other point, I guess I would say that I don't know how that would affect, in particular, just the group you are talking about. If you go into a plan where you have the option to cash out versus a plan where you don't, I'm not sure that the same employees wouldn't pick the same option, and it's one of the reasons I think that universal coverage is sort of the ultimate way of dealing with it.

Of course, I think one reason that you may find that women in particular are cashing in more is because they don't have the other resources to fall back on. They may want to buy a house or something else, and that's an immediate goal. They may not, in general, have the same kinds of resources as men, and so they are taking the moment's option.

Another reason may be that they are covered on their spouse's record through social security, and they will take their cash out in the civil service retirement and will get their social security protection anyway, which as Judy pointed out is one of the current problems with the system for married couples.

Senator DURENBERGER. And hope they don't get divorced within the first 10 years of marriage, right?

Ms. CAMPBELL. That's right.

The CHAIRMAN. Senator Moynihan?

Senator MOYNIHAN. May I suggest that as far as I know the principal proposal goes to the fact that these people are young—a condition for which there is no known cure. [Laughter.]

The CHAIRMAN. Senator Moynihan, do you have other observations? [Laughter.]

Senator MOYNIHAN. I want to say that we very much agree with you on so many of these things. Not all members of the Commission but I think most members of the Commission had no difficulty whatever with the question of earnings sharing. And we may write this into law sooner than you think.

We have a social insurance system which is really very generous in many respects. Those levels of payment are very low, but they represent genuine transfer payments. You do know that. Most of the typical recipients, in about 4½ years, receive back everything they have put in plus the employer contribution plus the interest. Then for the next 16 years it is all sure transfer. It is not very high, but getting that system stabilized is a great benefaction to the American people; otherwise, nothing. And getting that stabilized is the painful job we have right now, and phasing in to the system some of the issues of equity—you know, these are good kinds of problems to have, when women are in the work force. Why are they in the work force? Because they have better educations and we have gotten rid of a lot of stereotypes. You know, solving that kind of problem, that's a good kind of problem to have.

I think you will find there is much more interest in it than was shown by rather bare references in our report. But we thank you, even so, for your very specific proposals.

The CHAIRMAN. Well, we had Martha Keys and Mary Fuller. Both were very persuasive.

Senator MOYNIHAN. Yes, they did not fail to let us know.

The CHAIRMAN. Are there any other comments?

Ms. CAMPBELL. I would just make one other point, to you in particular, Senator Dole, and that is that we hope that the effort will continue also to iron out the pension offset problems that have been deferred now for 7 months, and to look at those in terms of their impact on women; and also to get your bill passed that would clean up the remaining parts of the Social Security Act in the United States Code of the remaining gender distinctions that on their face affect women and men.

The CHAIRMAN. As you know, we are working on that now. In fact, Sheila Bair is here to meet with you as you leave. We certainly haven't lost sight of that. As far as cleaning up the code, we hope to do that very quickly.

As Senator Moynihan has indicated, we have discussed privately the possibility that we address some of these concerns now and that the changes take effect later on. We need to work with all of you to see what the impact would be.

I know they finished the markup today on the House side—at least I understand they were to finish today.

Are you all opposed to extending the retirement age?

Ms. CAMPBELL. We are.

Ms. FORMAN. We think that would mean reduced benefits for women, and that means we are opposed to it.

The CHAIRMAN. I guess you were here when Dr. Schieber was here. He suggested that there is not a great deal of public support for either tax increases or extending the retirement age, and he thought maybe we should look at the bend points.

Ms. CAMPBELL. We are opposed to that.

Ms. FORMAN. We are very concerned—the bend points is a real problem.

The CHAIRMAN. You are not flexible?

Ms. FORMAN. That fools with the weighted-benefit formula which helps lower paid earners, and most of those are women. So we are utterly opposed.

Senator MOYNIHAN. Please, Mr. Chairman.

Ms. FORMAN. Excuse me?

Senator MOYNIHAN. Please discourage them.

Ms. FORMAN. Oh, I think there is just nothing that could make women's groups support any kind of a change in the weighted-benefit formula. It's our constituency out there that depends on it.

The CHAIRMAN. You are concerned about low income people?

Ms. FORMAN. Yes.

The **Chairman**. We might be able to protect low-income people. There are a lot of things we can do if we put our minds to it—and if we have the votes; that's the second requirement.

But we will be working with you as we put the package together, and I assume that, notwithstanding the opposition to certain portions of it, the compromise appears to be in pretty good shape.

Thank you very much.

We will now be in recess until 9:30 tomorrow, and we will start off with Senator Helms.

[Whereupon, at 4:06 p.m., the hearing was recessed, to be resumed at 9:30 a.m., Thursday, February 24, 1983.]

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ERRATA

National Commission on Social Security Reform Recommendations

The above sighted Senate Committee on Finance hearing which is numbered Senate Hearing 98–130, is incorrect.

The correct designation is Senate Hearing 98–87, Part 2.

5361-36